Austria Sch20	Indonesia Rp3100	Portugal Esc120
Bahrain Din0.650	Israel IS3.50	S.Arabia Rs6.50
Belgium BFr45	Italy L1700	Singapore S$4.10
Canada C$1.00	Japan Y600	Spain Pta145
Cyprus C£0.90	Jordan Fils 500	Sri Lanka Rs30
Denmark DKr10.00	Kuwait Fils 500	Sweden SKr9.00
Egypt E£2.25	Lebanon $L125.00	Switz SFr2.30
Finland FmK7.00	Lux LFr45	Syria [illegible]
France FFr6.50	Malaysia Rkt4.25	Thailand Bt50
Germany DM2.20	Mexico Pe2300	Tunisia Din0.800
Greece Dr120	Morocco Dh6.00	Turkey L400
Hong Kong HK$12	Neth Fl3.00	UAE Dh6.50
Iceland Kr125	Norway Kr10.00	USA $1.00
India Rp15	Philippines Peso40	

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

No.30,663 Monday October 10 1988 D 8523 A

OIL PRICES
How to survive in a glut
Page 23

World News

Mexico seeks defence over oil market price war

Mexico has given notice that it will take "necessary measures" to defend its market share in the face of price-cutting and greater competition by the Gulf oil-producing states. A joint statement issued at the weekend by the Ministry of Energy and the state-oil corporation, Petroleos Mexicanos (Pemex), emphasises that Saudi Arabia had become the leading supplier to the US. Page 24

Interest pledge
The UK Government will retain high interest rates for "as long as is necessary to get on top of inflation," Nigel Lawson, the Chancellor, warned yesterday ahead of the Conservative Party conference starting in Brighton tomorrow. Page 24

Baltic protests
The upsurge of nationalist sentiment in the Soviet Baltic republics was confirmed this weekend when tens of thousands took to the streets in both Latvia and Lithuania, waving newly legalised national flags. Page 4

Pakistan pact
Pakistan's former Prime Minister, Mohammad Khan Junejo, has announced formation of a three-party alliance to contest next month's election. Page 3

Iran concession
Iran and Iraq continued to argue over the weekend about how to proceed with their tortuous peace negotiations, although Iran made a concession to Iraqi demands which might pave the way for a consolidation of the ceasefire. Page 3

Namibian summit
About 170 Namibian community leaders arrived in Zambia yesterday for talks with the external wing of the South-West African People's Organisation (Swapo) on Namibia's transition to independence. Page 3

Raze Chernobyl plan
THE authority in charge of the evacuation zone around the site of the world's worst nuclear accident wants to raze the 800-year-old town of Chernobyl, Pravda said. Page 4

West Bank violence
Israeli troops swept through 30 West Bank villages wounding at least 10 Palestinians during a general strike to launch the 11th month of an Arab uprising against occupation.

Natal clashes kill 7
Seven blacks were killed in political violence in South Africa's Natal province, five in clashes in KwaMakhuta township, near Durban, in the run-up to municipal elections later this month

Mafia gun deaths
A bar owner and a farm hand were shot dead in the southern Sicilian port of Gela in violence between Mafia gangs fighting over control of drugs traffic.

Renault protest
Workers at the French state car firm Renault are to join teachers and suburban railway workers in public sector strikes in protest over the Socialist Government's determination to fight inflation with austerity.

Emperor's condition
Court doctors gave ailing Emperor Hirohito another blood transfusion to help the 87-year-old monarch in his fight for life while palace officials said that his condition was still stable.

40 children hurt
Forty South Korean children were injured, most of them seriously, when fire broke out during a sports festival in Seoul as they were cheering and waving paper flowers in a school playground.

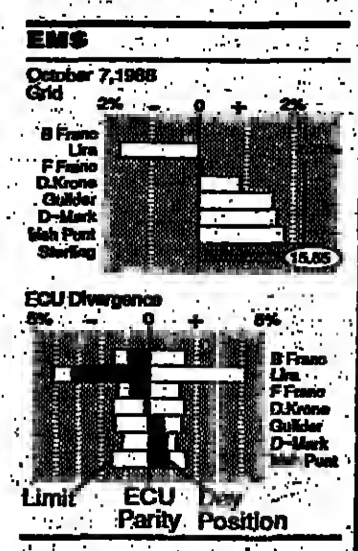
Danube monitor
The Hungarian Parliament has passed several resolutions to monitor closely construction work on the controversial Gabcikovo-Nagymaros barrage on the River Danube. Page 4

Business Summary

First Chicago expects 25% cut in debt exposure

FIRST CHICAGO, largest bank in the US midwest, expects to have reduced its Third World debt exposure by nearly a quarter by the end of this year, but opposes the idea of forgiving debt. Debt swaps and debt for equity exchanges are to be used to cut doubtful loans. Page 28

EUROPEAN Monetary System: The relationship between the D-Mark and the French franc remained stable last week, in generally quiet foreign exchange trading. There was no sign of strain within the system, with three currencies — the Irish punt, D-Mark and Dutch guilder — closely grouped at the top.



The chart shows the two constraints on European Monetary System rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (ECU), a basket of European currencies.

MINORCO, the South African-controlled investment company that has bid £4.9bn for Consolidated Gold Fields yesterday responded angrily to press reports that there had not been full disclosure of the beneficial interests in the company. Page 30

IRVING BANK signed an agreement to merge with Bank of New York on Friday, formally bringing to an end one of the longest and most expensive takeover bids in US history. Page 30

SCANDIA senior executives under attack for share-dealing practices in connection with a recent takeover bid, said yesterday they would clear their names by selling off the shares at the original price they had paid for them. Page 28

CABLE AND WIRELESS has mandated Hong Kong and Shanghai Bank and Midland Bank to arrange for it a $675m multiple option facility. Page 28

TRADING VOLUMES on the Sydney Futures Exchange for the first nine months of this year have already exceeded the record levels achieved in the whole of 1987, according to figures released last week. Page 28

BANK OF ENGLAND was once again very active in the gilts market last week. Suggestions in the market that the Bank bought in about £545m, mostly on Tuesday, seem far too high and a figure of half that amount may be a more likely upper limit. Page 27

FORD Credit Funding's issue last week of the first fixed-rate Eurosterling issue for some time — a five-year £101m issue via Hambros — has prompted speculation that the corporate sterling primary market may be set for a resurgence. Page 26

GRAND METROPOLITAN had been stalking Pillsbury, the US food conglomerate for which it launched a $5.23bn hostile bid last week, for about 12 months before making its move. The management decision to go ahead, subject to board approval, was made in August. Page 28

THURSDAY'S US trade figures are likely to be the focus of attention in financial markets, showing whether recent progress in correcting the long-running deficit has continued. Page 28

TANKER owners have been in a strong position over the past week as oil companies rushed back into the market to take advantage of lower crude prices and increased Saudi Arabian production. Page 5

Politburo endorses radical expansion of Soviet trade

By Quentin Peel in Moscow

THE POLITBURO of the Soviet Communist Party, the country's highest political authority, has endorsed a plan for a radical expansion of foreign trade up to the year 2000 which includes a gradual move to full convertibility of the rouble.

The decision gives full political backing to a process which had already been widely mooted by top officials and is probably intended to remove any final resistance in the Soviet bureaucracy.

However, the Soviet leadership has also made it clear that the process of making the rouble convertible will advance stage by stage, beginning with the state-trading countries in Comecon.

The Politburo met last week after the drastic shake-up within its ranks the previous weekend carried out by Mr Mikhail Gorbachev, the Soviet leader.

The ruling body has also ordered further changes in next year's state budget and annual plan, which have already caused stormy debates in the Soviet Council of Ministers.

Only the blandest details of the decisions were published at the weekend by Tass, the official Soviet news agency, but it confirms the direction of a significant overhaul of foreign economic organisations over the past year.

Some observers believe the announcement could signal a big increase in Soviet imports of both finished products and machinery. This would be designed to head off growing popular resentment at the failure of Mr Gorbachev's economic reforms to produce more food and consumer goods in the shops.

Moreover, the announcement may also herald the announcement of changes in the country's joint venture legislation to allow foreign partners to hold more than 50 per cent of share capital, and even provide foreign managers for Soviet projects.

Foreign trade, which accounts for only six per cent of Soviet national income, must play a much larger part in accelerating the economic and social development of the country, the Politburo communiqué said.

Trade officials say that the aim is to double the volume of foreign trade by the year 2000.

The plan will mean a switch from the "traditional forms of trade" – which often involve barter, particularly with fellow Comecon countries – "to wide-ranging co-operation in science, technology, and production on the basis of co-operation and specialisation," the announcement says.

It is intended that the share of manufactured goods in Soviet exports should rise and that there should also be a rise in the level of technology in Soviet manufacturing.

"It is also envisaged to perfect the economic mechanism of foreign trade relations based Continued on Page 24

Bucharin hailed; Moscow promises peace in Pacific; Chernobyl faces demolition; Engineering students' shortage, Page 4

Brussels in dilemma over chip dumping sanctions

By Terry Dodsworth, Industrial Editor, in London

THE European Commission's investigation into Japanese memory chip dumping in Europe has run into difficulties over the question of imposing financial sanctions at a time when prices have escalated well beyond the level that caused complaint.

According to European manufacturers, the Commission has recently come down in support of the industry's allegations that Japanese producers were dumping certain kinds of memory chips in 1985 and 1986. But officials are worried that imposing normal anti-dumping penalties would risk exposing European semiconductor users to further price increases.

The issue is particularly difficult because European semiconductor producers are pressing for action to be taken as a warning to their Japanese competitors against future dumping.

Executives in the European industry argue that it would be pointless to waste the results of virtually 18 months' work on the investigation without some sort of exemplary penalty on the Japanese. This has become additionally important, they add, because of the heavy investment the European industry has been making recently in an effort to establish a more viable memory chip manufacturing industry in Europe.

Prices of all kinds of memory chip products have about quadrupled in the past two years. Standard DRAMs (dynamic random access memories), the basic commodity chips used widely in the personal computer and consumer electronic industries, now cost about $9 each against less than $2 in 1986; and prices of erasable programmable read only chips (EPROMs), the other family of products involved in the anti-dumping complaint, have risen by similar amounts.

These increases have caused severe embarrassment to users over the last 12 months or so, forcing them to raise prices on finished products and trim back production. Japanese semiconductor companies say that the anti-dumping action has exacerbated these problems in Europe because Japanese suppliers have tended to shift their sales activities to other kinds of more advanced chips, thus causing shortages in those categories covered by the complaints.

EC discussions on possible anti-dumping sanctions have so far raised the issue of imposing provisional duties that would operate as a short-term cost on the Japanese companies but would not force them to increase their prices.

Provisional duties are a standard penalty in anti-dumping actions, where they are introduced as a short-term measure before longer-term sanctions are worked out.

Montenegro protestors in clash with Yugoslavian riot police

By Judy Dempsey in Vienna

YUGOSLAVIA's paramilitary police clashed for the first time on Saturday with demonstrators in the southern Republic of Montenegro. The confrontation is seen as a further deterioration of Yugoslavia's fragile political situation.

Tens of thousands of people gathered on Saturday in Titograd, the republic's capital, demanding improvements in their living standards.

The protestors called for an end to alleged intimidation of Serbs and Montenegrins by ethnic Albanians in the neighbouring autonomous province of Kosovo.

The demonstrators, who were dispersed by tear gas and riot police, were also demanding the resignation of the party leadership in Montenegro, claiming that it had not supported the political reforms of Mr Slobodan Milosevic, the powerful party leader in Serbia.

Mr Milosevic is seeking to extend Serbia's control over the two autonomous provinces of Vojvodina and Kosovo, which are constitutionally linked to Serbia.

Leaders in the other republics, however, most notably those in Slovenia, Croatia and Montenegro, have openly criticised Mr Milosevic, claiming that his use of the nationalist card is destroying the Yugoslav system.

Inflation in Yugoslavia is running at an annual rate of 200 per cent and, although prices have risen, wages and salaries have been frozen in an attempt by the authorities to bring the economy under control.

Mr Branko Mikulic, the country's Prima Minister, responded to the unrest by saying on Saturday night that the demonstrators' demands were justified. He added, though, that the Government would adhere to its economic reform programme which entails a tough austerity package.

The Yugoslav authorities, taken aback by the events in Montenegro, have now banned protests in the region as well protests planned in Kosovo.

Unrest covers new ground, Page 4

The rise of nationalist sentiment in the Soviet Baltic republics was dramatically confirmed this weekend when tens of thousands took to the streets in both Latvia and Lithuania, waving their newly legalised national flags.

A second mass movement in the region outside the direct control of the ruling Communist Party, the Latvian Popular Front in Support of Perestroika, held its inaugural congress in Riga, Latvia, on Saturday and Sunday, following the lead given last weekend by the Estonian Popular Front. Page 4

First Boston in talks on merger with European affiliate

By Stephen Fidler in London and Janet Bush in New York

THE BOARD of First Boston, the US investment bank, was last night meeting in New York to discuss plans expected to lead to a merger of the firm with Credit Suisse First Boston, its European affiliate, and to take the combined entity private.

The deal would create a powerful new force in the international investment banking business.

The proposal is also expected to pave the way for other institutional shareholders, probably from Japan, to buy into the combined firm.

First Boston, CSFB and Credit Suisse are currently linked by a complex series of cross-shareholdings dating back to 1978. First Boston holds 40 per cent of CSFB and Credit Suisse 60 per cent, and CSFB itself owns 40 per cent of First Boston.

The rest of First Boston's shares are held by employees and the public. On the basis of Friday's closing price of $48⅞, taking the firm private would cost nearly $1bn.

According to Euroweek, a London-based finance magazine, Mr Jack Hennessy, president and chief executive officer of CSFB in London, will return to New York to take up a senior position in a new holding company.

It said that Mr William Mayer, a managing director of First Boston, and Hans-Joerg Rudloff, deputy chairman of CSFB, would also hold senior positions. Mr Alvin Shoemaker, the present First Boston chairman, is expected to leave the group.

On completion, Credit Suisse would hold some 45 per cent of the merged business, having kept its stake below 50 per cent for US regulatory reasons. The management would own between 20 and 30 per cent with the rest being taken up by the new institutional shareholders, the magazine said.

CSFB has become one of the leading new issues houses in the international securities markets in the 10 years since its formation. Other firms, notably the Japanese, have raised more finance for customers, mostly from their home markets, in recent years but none could equal CSFB's international reach.

Yet for at least two years, the outward signs of continuing success have masked bick- Continued on Page 24

Background, Page 25

Algeria vows crackdown as violence flares

By Our Foreign Staff

FRESH CLASHES between police and demonstrators broke out in Algeria yesterday as the authorities vowed to use tougher measures to suppress the rioting that erupted six days ago in Algiers and is unofficially estimated to have cost more than 100 lives.

Although a communiqué from the military command set up to halt the violence warned against new disturbances, travellers yesterday reported fresh clashes with young people in Tiaret, 250km (150 miles) southwest of the capital.

They said the violence, which followed the initial riots in Algiers and Oran, Algeria's second largest city, caused considerable damage to government property. Residents said security forces had violent clashes with rioters yesterday morning. Oran residents reported gunfire and explosions and staff at the main hospital said it had taken in 18 dead and 100 wounded since the protests began there on Friday.

The death toll rose in Algiers, where troops opened fire on Saturday night. Algiers was calm during the day yesterday but a hospital worker said in Belcourt, one of the poor areas most devastated by the riots, that 17 bodies had been taken to Mustapha Civil Hospital yesterday after a night of heavy gunfire.

One of the worst incidents occurred in the Kouba district of Algiers where troops opened fire on a crowd, killing up to 60. Witnesses reported seeing bodies being dragged through the streets of the capital's poorer districts.

A previously unknown Islamic fundamentalist group, the Movement for Algerian Renewal, has claimed responsibility for the violence.

In a statement sent to international news agencies in Algiers it demanded "immediate satisfaction of the needs of the people", a reference to the shortages of basic foodstuffs in recent months. The group insisted on Saturday that the government should resign and the National Assembly be dissolved, and warned that unless its demands were heeded, it would resume agitation yesterday.

Moslem fundamentalists Continued on Page 24

Kuwait 'to protect' investment in UK

By Vanessa Houlder

THE Kuwaiti Government yesterday expressed its "extreme regret and astonishment" at the UK Government's decision to force it to halve its 21.7 per cent stake in British Petroleum. It said it would "do what is necessarily to protect its economic interests in Britain."

The comments, which followed a Cabinet meeting, were the first official Kuwaiti response to Britain's announcement last week that Kuwait must reduce its stake to 9.9 per cent within a year. This decision came after a Monopolies and Mergers Commission inquiry which found a potential conflict of interest.

The Kuwaitis did not elaborate on how it intended to protect its foreign investments. Mr Rashid Abdul-Aziz al-Rashid, a spokesman, merely said that Kuwait had studied "all appropriate measures to ... protect its economic interests and preserve its investments abroad."

An official from the Kuwait Investment Authority said yesterday that Kuwait would probably respond by cutting its international investment. He said that the British ruling was likely to discourage large new stakes in foreign companies.

The investment authority, which is part of the Kuwaiti finance ministry, was likely to invest in small holdings which were less likely to be controversial, he added.

At present prices, the Kuwait Investment Office would be faced with a loss of more than £300m on its shares. However, the Kuwaitis are thought likely to try to extend the period permitted for the divestment.

The United Arab Emirates may be planning to buy some of the BP shares sold by the Kuwaitis. Mr Abdul Malik al-Hammar, the central bank governor, was quoted as saying that the Gulf states should buy some of the BP shares after the British move showed the vulnerability of Arab investments.

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THE MONDAY INTERVIEW

Sir Christopher Hogg's achievement in restoring Courtaulds to its role as one of Europe's top textile and industrial groups has earned him admiration. At 52, he seems indifferent to it all. Page 42

OVERSEAS NEWS

Dukakis likely to harden attacks on Republicans

By Nancy Dunne in Washington

GOVERNOR Michael Dukakis, the Democratic Presidential candidate, is expected to step up attacks on his Republican opponents as he enters a crucial week for his campaign.

With Vice-President George Bush, the Republican candidate, still leading in the polls, Mr Dukakis is seeking to exploit the "opening" created by the poor performance of Mr Dan Quayle, Mr Bush's running mate, in a televised debate last week.

Mr Dukakis also hopes to deflect criticism of his own policies ahead of the next televised debate between Mr Dukakis and Mr Bush later this week.

The Democrats have launched a series of commercials attacking Mr Quayle's performance. Mr Kevin Phillips, a Republican analyst conceded on NBC television's "Meet the Press" programme yesterday that Mr Quayle had made Republicans uneasy.

"I think it's very clear that the Democrats did get a dynamic out of the Bentsen-Quayle debate," Mr Phillips said.

Mr Dukakis has also hit back at Republican campaign tactics. On Saturday, he accused Mr Bush of a "shameless" exploitation of "the tragedy of crime."

Mr Bush, taking up the law-and-order theme which has propelled Republicans to the White House since Richard Nixon won in 1968, spent much of last week standing amid crowds of cheering police and accusing Mr Dukakis of being soft on crime when he was Governor of Massachusetts.

A new Republican campaign commercial shows a line of criminals going in and out of a revolving door, a reference to a Massachusetts parole programme.

In an unusually emotional address in Maine, Mr Dukakis *referred to the death of his* brother in a hit-and-run accident, and an assault on his father, and said he needed no "lectures" from Mr Bush on crime-fighting.

Mr Dukakis's 85-year-old mother, Mrs Euterpe Dukakis, came forward at the Maine appearance and accused Mr Bush of "mangling the truth" of her son's record on crime.

Mrs Dukakis said that letters had been circulated in the Greek community in Massachusetts accusing her two late brothers of having been Communists.

Governor Dukakis is expected to spend most of the week preparing for the second and final presidential debate on Thursday or Friday. The exact date depends on the baseball play-offs schedule.

Mr Bentsen, his running mate, is expected to press forward the theme of "economic nationalism" raised by the Governor in a pivotal speech last Friday.

Mr Dukakis attacked the flood of foreign investments in the US, and promised to make trade reciprocity "a cornerstone" of US trade policy by demanding foreign market access for US products.

Mr Peter Hart, a Democratic pollster, and Mr Kevin said the race was close with Mr Bush leading, but Mr Hart said *private polls show a 2 to 3 point* gain nationally

Economic downturn 'inevitable by 1990'

A downturn in the US economy is inevitable "by late next year or early 1990," and the next president should act by gradually cutting spending and avoiding large tax increases, Mr Henry Kaufman, US economist, said in a magazine article published yesterday, Reuter reports from New York. Mr Kaufman, who heads a Wall Street financial consulting firm, said in New York Times magazine a "shallow" recession could become a severe economic crisis with "sizeable and precipitous tax increases or cuts in spending."

Lambsdorff wins FDP chairmanship

By David Goodhart in Wiesbaden

MR Otto Lambsdorff, former West German economics minister, has achieved one of the most notable come-backs in post-war German politics by narrowly winning the chairmanship of the liberal Free Democratic Party, the junior partner in the Bonn coalition and pivot of the federal political system.

At 61, he is a conservative liberal with a sharp tongue and strong free-market views. He defeated Mrs Irmgard Adam-Schwaetzer, 46, identified with the liberal wing of the FDP, by 211 votes to 187. She has the consolation prize of one of the three deputy-chairs.

Mr Lambsdorff resigned as economics minister four years ago over the scandal involving illegal political payments by the Flick industrial group. Last year he was convicted of tax evasion but cleared of corruption.

The dominant group in the ruling coalition – the Christian Democratic Union/Christian Social Union – may suffer in the short term from the arrival of a combative personality at the helm of the FDP in place of Mr Martin Bangemann, current chairman and Economics Minister, who is to become an EC commissioner next year.

However, it is almost certain that Mr Lambsdorff, will persuade his party to remain committed to the same coalition after the national elections at the end of 1990. Mrs Adam-Schwaetzer might have been less keen. Mr Lambsdorff was one of the key figures who successfully pressed for an FDP withdrawal from the 13-year coalition with the Social Democrats in 1982.

The recent death of Mr Franz Josef Strauss, leader of the Bavarian CSU, may have helped Mr Lambsdorff in the election. The demise leaves a space for a forceful personality in the three-party coalition, which he will try to fill. Some delegates at the FDP congress at Wiesbaden were talking of Mr Lambsdorff becoming "the Strauss of the 1990s".

However, the death of Mr Strauss is also an electoral problem for the FDP which has collected many votes and a high profile as the recipient of Mr Strauss's political venom. Mr Lambsdorff referred to this problem on Saturday and said the FDP must establish a higher profile in its own right.

Mr Lambsdorff is thought to suffer from a poor national image, partly as a result of the Flick scandal.

Mr Lambsdorff stressed that he would not be making systematic or unnecessary trouble within the coalition and would not be seeking a seat in cabinet – where the FDP has four – because he believes that, like Mr Strauss, he will have more power outside.

The FDP conference on Saturday passed a motion expressing disenchantment with the costly European Fighter Aircraft (EFA) project, David Goodhart writes.

The motion said the West German share of the costs must not rise and stressed that if Spain pulled out the whole German commitment should be reviewed.

Furthermore, it said, full-scale production should not begin until it was clear how the talks on reducing conventional forces in Europe were developing.

Belgians vote in local polls

BELGIANS voted yesterday in local elections seen as the first public opinion test for the five parties in Prime Minister Wilfried Martens' coalition government which took power in May, Reuter reports from Belgium.

Observers said the vote for the country's 589 communal councils was dominated by local issues. Mr Martens has said the result will not change his determination to push ahead with constitutional and economic reforms.

De Mita gives party resignation threat

By John Wyles in Rome

ITALY'S Christian Democrat prime minister, Mr Ciriaco De Mita, warned his party at the weekend that he will be forced to resign if the government fails tomorrow to secure a crucial majority in favour of reforming parliamentary voting procedures.

The prime ministerial warning, delivered during a characteristically discursive three-hour speech to the Christian Democrats' youth section, makes explicit what has hitherto been assumed. If the five-party coalition cannot muster its majority behind strict limits on the use of secret voting, then "it would be my duty to take note", said Mr De Mita.

The sense that the government may be in some peril tomorrow during the final secret vote on the future of the secret vote has been heightened by treatment given last Friday to amendments to the government's proposal in the lower house of parliament.

After 19 separate votes, the government carried 16 and lost three without ever reaching the absolute majority of 316 votes.

Since on paper the coalition vote should number 370, it is thought that at least 60 so-called "snipers" joined the communists and other opposition parties in voting against the government.

The fall of the government could easily lead to early elections – a fearsome prospect which by itself may be sufficient to guarantee the covert support of around 30 communists.

It is thought many of these were using the secret vote on Friday partly to warn Mr De Mita that he must abandon all hope of continuing as leader of the party and prime minister beyond the party's congress next January.

In his weekend speech, Mr De Mita threw this section of his unruly party a gratuitous bone by declaring that if by the time of the Congress he is still prime minister, "I shall not be secretary of the party".

Book sales boom as Frankfurt turns 40

Haig Simonian visits the biggest event on the international publishing calendar

THE stands will start coming down later today as books are packed away or quietly sold to the public. Another Frankfurt book fair will be over.

This year has been special, however. The fair, the premier event of its kind in the international publishing calendar, is 40 years old.

From humble beginnings in the bomb-ravaged city in 1949, it has steadily grown into a giant of its kind. This year 7,695 exhibitors from 95 countries jostled for space, with no fewer than 339,000 books on show, 108,000 of which claimed to be new titles.

The numbers have been rising almost continually since the first fair, when 205 exhibitors, all German, showed their wares.

About two thirds of the exhibitors now are foreign. The British are traditionally the biggest contingent, with around 800 exhibitors, followed by Spain the US and France. Thanks to subsidies from the West German government, there is also room for the minnows, allowing countries like Afghanistan, Nepal and Senegal to be represented by one exhibitor each.

The first two days of the five-day event remain *restricted to the trade, but* bookworms, browsers and the plain nosy have flooded in during the rest. The organisers, who set up a special series of events, including author readings, music and exhibitions, expect this year's total to top last year's 191,000.

Few other nations read as avidly as the Germans, according to figures compiled by the Book Trade Association. Some 65,680 books appeared in West Germany last year, 3.1 per cent up on 1986. According to the most recent Unesco figures, the number of new titles in West Germany trails only that for the Soviet Union.

The publishers are also *doing their bit for the export* trade. Exports of books and magazines rose by 5.5 per cent to DM2.36bn (£746m) last year against a 6.7 per cent increase in imports to DM832m.

Such information is academic to most of those at the fair. Their main interest is to strike deals. In the book business, that usually means buying or selling the rights to publish titles in different formats or parts of the world.

The era of blockbuster rights auctions in Frankfurt has passed as the number of best-selling authors has decreased and publishers bank on a few trusted names.

But the fair is still a crucial key international meeting place, and, for non-fiction titles especially, a key arena to negotiate rights deals.

It is also a place where political barriers can be lowered. The fair has played a role in bridging political gaps.

The book trade between the two Germanies is a case in point. West German sales across the border have fallen but events like the fair help to get many East German authors published in the West. And West German publishers exhibit at book fairs in the East in the hope that friends and private contacts will see to it that books are spirited across the border, even if their wares are often unavailable in bookshops there.

Government backs Pinochet

By Barbara Durr in Santiago

THE CHILEAN Government is attempting to turn its defeat into a personal victory of sorts for General Augusto Pinochet. Speaking at the weekend, Mr Sergio Ferdandez, the Interior Minister, who was chief of the regime's plebiscite campaign, said Gen Pinochet's 43 per cent of the plebiscite vote showed he was "undeniably the premier political force of the country and has the greatest popular support."

Re-emphasising the main theme of the campaign, Mr Fernandez said: "The plebiscite was a comprehensive defeat for Communism." He added that the "democratic stature of the Government cannot be seriously questioned", as it subjected itself to a plebiscite.

The Government's attempt to reaffirm Gen Pinochet is a direct response to the calls by the opposition for the general's resignation. Spontaneous as well as planned massive demonstrations have stepped up public pressure for him to quit.

It is widely suspected that the Government hopes such demonstrations will lead the opposition into hasty mistakes of which it will be able to take advantage.

Mr Fernandez contended that Gen Pinochet had broken the traditional Chilean voting pattern of a third each to the right, left and centre. And, by painting the general as a popular political figure, the regime appears to be laying the ground work for a possible Pinochet candidacy in a future presidential election.

FINANCIAL TIMES

Published by the Financial Times (Europe) Ltd., Frankfurt Branch, represented by E.Hugo, Frankfurt/Main, and, as members of the Board of Directors, F. Barlow, R.A.F. McClean, G.T.S. Damer, M.C. Gorman, D.E.P. Palmer, London. Printer: Frankfurter Societaets-Druckerei-GmbH, Frankfurt/Main. Responsible editor: G.D. Owen, Financial Times, Bracken House, Cannon Street, London EC4P 4BY.

FINANCIAL TIMES, USPS No 190640, published daily except Sundays and holidays. US subscription rates $365.00 per annum. Second-class postage paid at New York NY and at additional mailing offices. POSTMASTER, send address change to: FINANCIAL TIMES, 14 East 60th Street, New York, NY 10022.

OVERSEAS NEWS

More freedom for commercial banks in India

By David Housego in New Delhi

THE deregulation of India's cumbersomely controlled banking system took a step forward at the weekend, when the central bank announced measures that will give commercial banks more flexibility on lending and rates.

The move reflects pressure from a reformist lobby in the Finance Ministry which has been pushing the central bank, the Reserve Bank of India, to encourage the largely state-owned banking system to improve services and become more competitive.

The latest step comes after other measures intended to introduce more flexibility in the banking system and ease industry's access to credit, including creation of a commercial paper market.

The most significant of the new liberalisation measures is that banks will no longer need central bank approval before making large loans. Under current lengthy procedures, the banks need central bank agreement before they can make term loans above Rs60m (£2.4m) or provide working capital over a limit of Rs20m.

The restrictions were introduced long ago to prevent companies from borrowing to speculate in scarce commodities. But increasingly they are seen as a burdensome regulation limiting industry's access to credit.

To guard against abuses, however, the central bank is to retain the right to retrospective scrutiny over large loans (defined in the case of working capital as over Rs50m).

In similar vein, commercial banks will be given some flexibility in the rate of interest they can charge to larger corporate customers. Under India's existing highly regulated interest rate structure, top quality corporate borrowers are forced to pay the highest rate of 16.5 per cent, while smaller scale industry and other favoured borrowers can obtain money at subsidised rates well below this.

Now, banks will be allowed to charge top quality corporate clients 0.5 of a point less, with a minimum rate of 16 per cent. Mr Cshok Kapur, general manager of Grindlays Bank, said yesterday: "We would have liked to see greater flexibility, but at least this is a first step."

The move comes in the wake of agreement in principle to set up a commercial paper market in India which will ease industry's short-term funding problems by enabling companies to borrow directly from each other.

Parallel with this, the central bank yesterday restored the right of commercial banks to trade loans among themselves as a way of adjusting short-term liquidity.

Takeshita certain of tax reform victory

By Ian Rodger in Tokyo

JAPAN'S Prime Minister, Mr Noboru Takeshita, predicted in a speech at the weekend that his Government's controversial tax reform plan would be passed during the current extraordinary session of the Diet (parliament).

This was the most confident statement on the issue yet made by the normally cautious premier, and reflects a remarkable turnabout in the parliamentary fortunes of the ruling Liberal Democratic Party in the past fortnight.

The turning point came two weeks ago when the LDP succeeded in extending the current Diet session. Since the opening of the session in mid-July, the Opposition parties had united to block debate of the LDP's six tax reform bills.

Until the last minute, it looked as if they would try to prevent the ruling party from extending the session beyond its September 26 scheduled close as well.

The Opposition parties all oppose the introduction of a consumption tax, which is one of the main features of the reform plan.

A series of financial scandals in the spring and summer involving leading politicians had strengthened their determination to resist the LDP plan and insist on improved enforcement of existing tax laws instead.

There is a custom in modern Japanese politics that the LDP will not use its majority to achieve its will on a given issue in parliament if all the opposition parties refuse to participate in the debates.

However, as has happened so often in the past, the unity of the Opposition political parties crumbled last month when tested by the LDP.

The Democratic Socialist Party, the second largest opposition party, agreed at the last minute to participate in the debate over whether or not to extend the Diet session, thus enabling the LDP to bring the question to a vote and enforce its will.

The extension is a considerable personal victory for Mr Takeshita, who rejected the advice of some of his colleagues to bulldoze the reform through the Diet, preferring to negotiate patiently with the Opposition.

Last week, in an apparent response to the DSP's co-operation, the ruling party agreed to remove some unfair elements in the existing tax system, in particular to close loopholes in capital gains taxes on securities transactions.

The session will continue to November 24, long enough, in the view of most analysts, for the LDP to get the tax bills through.

Iran makes concession to Iraqi demands

IRAN AND Iraq continued to argue over the weekend about how to proceed with their tortuous peace negotiations, although Iran made a concession to Iraqi demands which might pave the way for a consolidation of the seven-week-old Gulf War ceasefire, Victor Mallet reports.

Mr Ali Akbar Velayati, Iran's Foreign Minister, suggested on Saturday that there had been a breakthrough.

He said both sides had agreed in principle to compromise proposals from the UN, including a withdrawal of troops to international boundaries in 15 days and a pledge from Iran that it would no longer insist on the right to search ships in the Gulf.

But an Iraqi official expressed surprise at Mr Velayati's assertion that the UN plan had been agreed.

Indian monsoon raises crop hope

India's annual south-west monsoon was the best in the century, raising prospects for a bumper winter crop, United News of India said, AP-DJ reports from New Delhi.

The news agency quoted an end-of-season review by the government's Meteorological Department as saying this summer's rains were 16 per cent above normal and among the five heaviest this century.

Indian agriculture accounts for two-thirds of the country's Gross Domestic Product.

China's industrial output rises

China's industrial output continued to rise in September, far exceeding increases in energy and raw materials, despite government efforts to slow the trend, Reuter reports from Peking.

The New China News Agency said industrial output last month showed a year-on-year increase of 20.2 per cent in September, against 18.3 per cent in August and 15.8 per cent in September last year.

In September, output of light industry grew 23 per cent year-on-year, while the share of state companies in total output continued to fall against that of rural and collective operations.

Israeli troops sweep West Bank villages

Israeli troops swept through 39 West Bank villages yesterday, wounding at least 19 Palestinians during a general strike to launch the 11th month of an Arab uprising against occupation, Reuter reports from the West Bank.

Palestinian shops in the West Bank and Gaza Strip closed, public transport halted and workers stayed away from jobs in Israel on orders from underground leaders of the uprising, backed by the Palestine Liberation Organisation.

Israel's Defence Minister, Mr Yitzhak Rabin, reaffirmed he had ordered the army to wound Palestinian rioters to deter violent demonstrations. At least 299 Palestinians and six Israelis have died since the revolt began.

Arab priority in Iraqi projects

Iraq will give priority in reconstruction projects in the post-Gulf war era to Arab countries "and foreign companies in accordance with their co-operation with Iraq during the hostilities", Mr Taha Yassin Ramadan, First Deputy Premier, said yesterday, AP-DJ reports from Kuwait.

The US was pursuing "a conspiratorial approach" toward Iraq, he told the Kuwaiti newspaper Al-Anbaa. Baghdad considered the attitude of France "the most positive among European countries".

Iraq considered General Michel Aoun's Christian Cabinet to be Lebanon's legitimate government, he added.

Many hands grope for African summit

Michael Holman assesses the latest efforts to win peace in Angola and Namibia

THE COMPLEXITY of the peace negotiations over south-western Africa was underlined by what could have happened – but in the event did not – in Lusaka last week.

The Zambian capital was supposed to have been the venue (according to African diplomats, Zaire's naws agency, and South African officials) for a summit meeting of the leaders of Angola, Congo, Gabon, Zaire, and Zambia.

It seemed both feasible and sensible when barely a week goes by without some diplomatic activity in the region.

President P.W. Botha of South Africa, who had recently welcomed Mr Javier Pérez de Cuéllar, the UN Secretary-General, to South Africa, had just completed his third foray into black Africa, this time to Zaire.

While the meeting with President Mobutu Sese Seko of Zaire was under way, the leaders of Angola, Gabon and Congo were getting together. Also at about this time, officials from Angola, Cuba and South Africa were preparing to meet in New York for yet another round of negotiations to pursue independence for Namibia and peace in Angola.

Critical to the success of the Namibia talks are the negotiations, in effect parallel, encouraged by the US and the Soviet Union, but conducted mainly by African mediators. These are designed to persuade President José Eduardo dos Santos of Angola and Mr Jonas Savimbi, leader of the Unita rebel movement there, to end their civil war at the conference table.

The Lusaka summit was seen as a further step in this process, taking place amid signs that Angola and South Africa may be closer to overcoming the second main obstacle to a south-western African peace pact. This is the need to reach agreement on the timetable for the withdrawal of about 50,000 Cuban troops from Angola.

For all that, it was not to be. "There is no summit at all," said President Kenneth Kaunda of Zambia, not long before it was supposed to begin, although he did confirm that the leaders of six black front-line states are to meet soon in Botswana.

Diplomats are not sure what happened. Was the meeting aborted? If so, why? Was it ever planned? Could it yet take place?

Perhaps the only person who might be able to say how the Lusaka summit that wasn't, and the other activities in and beyond southern Africa fit together, is the man who is trying to assemble the region's diplomatic jigsaw. He is Dr Chester Crocker, US Assistant Secretary of State for African Affairs.

However, even he may be finding it difficult to keep abreast of the parallel initiative, although he presided last week over the eighth round of talks on Namibia by Angola, Cuba and South Africa.

It involves parties as disparate and far apart as King Hassan of Morocco, President Mobuto, President Denis Sassou-Nguesso of Congo, President Félix Houphouët Boigny of Ivory Coast, and General Olusegun Obasanjo, former Nigerian leader.

Co-ordination of this initiative is a difficult task, made no easier by the fact that it requires the leaders and intermediaries to drop ideological differences and overcome personal vanities in the search for a formula that will bring Mr dos Santos and Mr Savimbi together.

US negotiatiors have told the African mediators that they see a settlement of the Angolan civil war as integral to efforts to bring independence to Namibia. They argue that a link between the two issues is the timetable for a Cuban troop withdrawal.

South Africa now proposes a two-year withdrawl, but intends that the bulk of the Cuban contingent must leave Angola during the seven-month period before independence elections in Namibia.

Angola can only accept this timetable if the war with Unita comes to a early, negotiated end. With South African forces out of Angola, a black government in Namibia and the civil war over, the need for Cuban support of the administration in Luanda, the Angolan capital, would be removed.

This week in Brazzaville, the Congolese capital, this week Angola, Cuba and South Africa are due to meet again. The key to the outcome may be the efforts to achieve reconciliation in Angola.

This is why many diplomats here believe that the African leaders attempting to mediate between Mr dos Santos and Mr Savimbi could yet get together, in Lusaka or elsewhere.

ABOUT 170 Namibian community leaders arrived in Zambia yesterday for talks with the external wing of the South-West African People's Organisation (Swapo) on Namibia's transition to independence, Nicholas Woodsworth writes from Lusaka.

The Namibian group was made up of 40 whites and included businessmen, politicians, and professionals. They met Swapo officials near the provincial Zambian town of Kabwe. The main aim is to promote consensus on the implementation of UN Resolution 435 that calls for the independence of the territory.

By-election result jolts Hawke

By Chris Sherwell in Sydney

THE RULING Labor Party in Australia has seen one of its safest seats move towards marginality through a big swing of voter sentiment in a by-election.

It took place on Saturday in the Oxley constituency near Brisbane. It used to be that of Mr Bill Hayden, now Governor General-designate, was Labour's safest seat in Queensland and one of the safest in the country.

Although the party's candidate, Mr Les Scott, was elected, voters slashed the margin of victory, as happened in by-elections for two Adelaide seats this year.

Mr Hayden had 59 per cent of the first preference vote in the 1987 general election but Mr Scott won only 49 per cent. The swing is expected to be even larger once preferences are distributed.

The big beneficiary was the Liberal Party. Its federal coalition partner, the National Party, holds power in its own right in the Queensland state government, but also saw its support cut.

Mr Bob Hawke, federal Prime Minister, who visited Oxley twice during the by-election campaign, acknowledged that the result was a setback for his government. Mr John Howard, the Liberal leader, accused Labor of being out of touch with the average Australian.

Voters remain unhappy about the stagnation in living standards under Labor's policy of "restraint with equity."

Parties in Pakistan join forces ahead of election

PAKISTAN'S former Prime Minister, Mr Mohammad Khan Junejo, has announced formation of a three-party alliance to contest next month's election, Reuter reports from Islamabad.

Mr Junejo said that his Pakistan Muslim League (PML) party was joining forces with the Tehrik-i-Istiqlal party of former Air Force chief Asghar Khan and Jamiat Ulema-i-Pakistan, an Islamic party.

The political alliance, the second formed in three days, will work for an "Islamic, welfare, parliamentary system."

Eight right-wing and religious parties, mainly supporters of late President Zia ul-Haq, formed the Islamic Democratic Alliance last week to oppose Ms Benazir Bhutto's Pakistan People's Party.

The PPP dominates the nine-party anti-Zia alliance known as Movement for Restoration of Democracy.

Thousands join Baltic nationalist demonstrations

By Quentin Peel in Moscow

THE upsurge of nationalist sentiment in the Soviet Baltic republics was dramatically confirmed this weekend when tens of thousands took to the streets in both Latvia and Lithuania, waving their newly-legalised national flags.

A second mass movement in the region outside the direct control of the ruling Communist Party, the Latvian Popular Front in Support of Perestroika, held its inaugural congress in Riga on Saturday and yesterday, following the lead given last weekend by the Estonian Popular Front.

For the first time in 30 years, a service was conducted yesterday in Riga's Lutheran Dom cathedral, attended by some 2,000 people, in support of the Popular Front. More than 100,000 paraded through the streets of Riga, and a similar number in Vilnius, the Lithuanian capital, on Friday, showing why the ruling party has been forced to take drastic action to accommodate their demands.

The parliaments in both republics last week legalised the display of their national flags, formerly banned in favour of the Soviet Union's hammer and sickle, and granted official status to their national languages – two prominent demands of the mass movements.

In Riga, both the new Latvian Communist Party leader, Mr Jan Vagris, and the reformist president of the parliament – the Supreme Soviet – Mr Anatoly Gorbunov, addressed the Popular Front congress, attended by more than 1,000 delegates out of an estimated membership 130,000.

They heard calls for a restriction on immigration into the republic, where the native Latvian population is now almost outnumbered by ethnic Russian immigrants and other nationalities.

The other main call is for economic autonomy from Moscow, giving Latvia the right to retain its own tax income, allocate its own budget, and conclude its own foreign trade agreements.

In neighbouring Lithuania, a Popular Front is to be formally inaugurated in two weeks.

Demands for full independence are still voiced by only a handful, but awareness of the potential for a secessionist movement seems to have prompted the Party hierarchies to adopt many of their demands for greater independence from Moscow.

Chernobyl town faces demolition

THE authority in charge of the evacuation zone around the site of the world's worst nuclear accident wants to raze the 800-year-old town of Chernobyl, Pravda said on Saturday in a highly critical article.

The Communist Party newspaper said the plans to demolish the town were too hasty and called for them to be reconsidered, Reuter reports from Moscow.

The plans were made behind closed doors by a special body set up by the Ministry of Atomic Power with powers over the 18-mile evacuation zone, Pravda said.

The newspaper said some 994 people, mostly elderly, had dodged roadblocks and returned to live unofficially in villages surrounding Chernobyl since the 1986 explosion at the nuclear power plant.

Pravda said that while the atomic industry body declined to acknowledge the existence of these people, local authorities had actually sent them food and other supplies.

Authorities in neighbouring Byelorussia had adopted a different approach in favour of step-by-step decontamination and assistance to people to return to their homes.

The level of radiation differed considerably within the zone around the plant which lies in the Ukraine, near the Byelorussian border. But it had returned to normal levels in some parts, the paper said.

Montenegrin unrest covers new ground

Yugoslav protests are starting to take in economic grievances, says Judy Dempsey

THE wave of unrest in the Republic of Montenegro at the weekend signals an important change in the large and emotionally-charged protests which have swept across Yugoslavia over the past three months.

And unless Mr Slobodan Milosevic, the party leader of Serbia, can quickly come up with solutions to meet these recent demands, his own credibility could be undermined.

The recent wave of protests has been organised by special committees set up by Serbs from Kosovo, the autonomous province which is constitutionally linked to the Republic of Serbia.

The committees say Serbs in Kosovo are being intimidated and harassed by the ethnic Albanians who make up 80 per of the province's population.

To highlight their grievances, these committees have organised mass, nationalist-inspired demonstrations throughout the country.

At the same time, they have openly supported Mr Milosevic's policies, which seek to bring the province under the direct control of Serbia.

So far, Mr Milosevic has been able to use the demonstrations to back his plan to amend the constitution of Serbia and sack senior party officials who, he claims, are responsible for the country's ailing economy.

Those amendments, if agreed by the leaderships in Kosovo and Vojvodina, the second autonomous province linked to Serbia, would give Serbia full control over them, meaning that Serbia would have political dominance in the Yugoslav federation.

This is precisely what the late President Tito wanted to avoid. And it explains why he drew up the complicated and largely unworkable Constitution of 1974, which curtailed Serbia's influence by creating the two autonomous provinces.

Until recently, Vojvodina had resisted Mr Milosevic's plans to amend the constitution. But last week, in a move clearly designed to intimidate the Vojvodina leadership, thousands of nationalist Serbs forced the leaders' resignation on the grounds that they had blocked political reforms and prevented Serbia from taking control over the province.

That resignation, engineered by what observers regard as crude nationalist pressure, as well as indirect support by Mr Milosevic, who did not defend the party leaders, means he now faces less opposition to his plans to control the provinces.

However, the violent demonstrations at the weekend in Montenegro went beyond nationalist grievances.

For one thing, in contrast to previous demonstrations, these were sparked off by economic complaints, in particular low wages and high prices. For another, economic and nationalist grievances have for the first time coalesced.

It is difficult to see how the federal leadership will deal with and contain this fusion of grievances.

But it seems that the Montenegrin demonstrators believe Mr Milosevic can solve the country's economic problems.

For the moment, Mr Milosevic has failed to topple the leadership in Montenegro and thus broaden his power base. This indicates that he still lacks support from the federal party leadership for his plans.

The real test of his political clout will come next week during a crucial central committee meeting. If he manages to remove his opponents and the old leaders, he will be held responsible for meeting the economic demands of the population, which observers believe will be done neither overnight nor through nationalist demonstrations.

Bukharin 'one of the greatest Soviet figures'

NIKOLAI Bukharin, shot as an enemy of the people on the orders of Stalin in 1938, was hailed by Pravda yesterday as one of the greatest figures in Communist Party history, Reuter reports from Moscow.

In a clear attempt to link his ideas with the reform programme of Soviet leader Mikhail Gorbachev, the newspaper praised his economic views and fight against bureaucracy.

Bukharin was "one of the most prominent figures in the history of our party," Pravda said in one of several articles in the Soviet press marking the centenary of his birth.

Pravda cited Bukharin's support for co-operatives, the use of cost accounting and market mechanisms, ideas under discussion as part of Mr Gorbachev's reform programme.

Bukharin was formally rehabilitated by the party in July as part of a mass re-evaluation of Soviet history carried out under Mr Gorbachev over the past year. He was cleared of criminal charges in February.

Moscow promises peace in Pacific

By Peter Ellingsen

FOR four days last week, 100 foreigners walked the streets of Vladivostok, photographed warships in the warm-water harbour, and listened while senior Soviet leaders made their pitch to join the economic growth of North Asia and played down worries about military confrontation in the Pacific.

As gestures go, the decision to hold an international conference in the home base of the Soviet Pacific fleet was both symbolic and dramatic, but at the end of the week, many questions remained unanswered.

Few of the visitors who headed home on Aeroflot flights doubted Moscow's intention to become an economic force in the Asia Pacific region, but there was less certainty about long-term military and strategic objectives.

As one of the delegates, Professor Joachim Glaubitz, a Soviet specialist from Munich University, observed: "With the Soviet Far East so economically backward I am sure they are sincere about trade and growth, but they have still to show us how genuine they are about a significantly reduced military presence."

Despite Professor Glaubitz's reservations, top Soviet officials, including Mr Eugeny Primakov, a member of the ruling Central Committee, and Deputy Foreign Minister Igor Rogachev, were categorical in their claims that the Soviet Union wanted to reduce military tension in the region.

Mr Primakov, who participated in the Kremlin shakeup orchestrated last week by Soviet leader Mikhail Gorbachev, said the "greater vigour" resulting from perestroika and changes in the Politburo would flow over to foreign policy.

"We realise we can't necessarily apply European experience to this region," he said. "Our proposal is to take a fairly flexible approach... we don't believe we have all the answers... we are open to consider answers from all nations in the Asian region."

Echoing proposals put forward by Mr Gorbachev in Krasnoyarsk last month to freeze and then reduce military activity in the region, Mr Rogachev said Australian initiatives to limit nuclear weapons in the Pacific offered the best course for peace and security.

However, he said, despite Soviet attempts to reduce its naval presence in the Pacific, "the situation in the region remains rather complicated and far from stable."

With a veiled reference to the United States, he said he could not help but notice "some people" treated Soviet policy with caution and even worked against it.

Mr Rogachev claimed the US had a three-to-one naval superiority in the Pacific and a 10-to-one dominance in on-board aircraft. "The Soviet Union adheres to a solely defensive role in the Pacific," he said. "It does not envisage an attack on the US Pacific Fleet."

He said the US had recently added Tomahawk missiles to its Pacific fleet, "not to protect ships but to hit targets deep in enemy territory."

Mr Rogachev insisted the "so-called Soviet military threat" in the Pacific was unrealistic. "We do not intend to interfere with the stability of the Asia Pacific region," he said. "We are aware that the situation here is closely related to global problems and depends on the US and the USSR."

Describing Soviet policy in the region as "responsible sufficiency", Mr Rogachev said Moscow wanted stability in the Far East and the opportunity to develop its fledgling economy.

Apart from the US, Soviet military attention in the region is directed towards Japan. Like China, the Soviet Union is both critical of and sensitive to the recent growth in Japanese military spending beyond one per cent of its gross domestic product.

Engineering students shortage

By David Thomas in Leningrad

THE Soviet Union is concerned about increasing difficulties in persuading students to study engineering and other technical subjects, a significant problem for a country whose industry is largely dominated by heavy engineering.

Soviet anxiety about this trend emerged during a week-long tour of Soviet education and research institutions by Mr Kenneth Baker, UK Education Secretary.

Prof Juri Vasiliev, rector of Leningrad Polytechnic Institute, an elite Soviet higher education institute specialising in engineering and science, told Mr Baker: "This is our sore spot."

He said the ratio of applicants to places at the Leningrad institute had fallen to 2:1 from about 6:1 in the 1970s. "Even to get two applicants for each place, we have to work a lot with schools," he added.

Mr Viktor Zubaryev, Deputy Soviet Education Minister, confirmed that this was a nationwide problem. He said it had emerged as a significant trend about five years ago.

Mr Zubaryev blamed the dwindling interest in technical subjects on the increasingly negative image among young people of industry, which was being held responsible for serious ecological problems.

He added that the trend was less pronounced in mathematics and physics, but was still noticeable. Young people preferred to study for professions such as law and medicine.

Mr Vladimir Mikshin, prorector of Leningrad's Herzen teachers' training institute, also told the British delegation of a nationwide shortage of teachers. He blamed this on poor forecasting of demand for teachers, and said it was being met by putting more students through training colleges.

Consultants man Brussels' fastest-moving gravy train

William Dawkins offers a way through a multi-million dollar maze studded with traps for the unwary

The really smart thing to be in Brussels these days is an expert, the kind who tells anxious companies what lies in store for them in the EC's campaign to build a free internal market by 1992.

Consultancy is the fastest moving, busiest gravy train in town for those with the skill and connections to navigate through the EC's complex institutions. And it has arrived with great speed. Only 18 months ago, EC-related consultancy was a cosy trade, easy for its limited clientele to understand. Now almost every month an ambitious new firm announces its arrival into what has become a multi-million dollar maze studded with traps for the unwary.

Nobody has measured the new phenomenon exactly. But an informed guess is that the hundreds of lawyers, accountants, management consultants, ex-Commission officials and former journalists loosely grouped in the Brussels-based 1992 advice industry, turned over at least $150m (£93.7m) last year.

Soma of the better-known firms reported a doubling and tripling of fee income over the past 12 months and are now having to turn away business. "At some point the bubble must burst, but for now, there are a lot more people who need to know than there are people in the know," says one consultant.

Their eager clients come from all sectors and countries, even including the European Commission, which is contracting out an increasing amount of research and analysis. The clients are prepared to spend huge sums to keep up to date in the 1992 game.

Several multinationals with a turnover of Ecu 5bn plus – US as well as European – are spending between Ecu 100,000 and Ecu 250,000 on 1992 consultancy this year, while a stage down the scale, businesses with Ecu 1bn turnover are shelling out Ecu 50,000 apiece.

They spend it on services such as the "Snip" – Strategy Ninety-Two Initial Positioning grid – offered by C&L Belmont, one of the largest Brussels-based consultancies; or a £20,000–£30,0000 "strategic review" provided by one well-known accountancy firm; or on the £10,000 per year reckoned to be the going rate for hiring a sharp pair of ears and eyes to keep a general (part-time) watch on EC affairs.

Consultants agree that some of that money is ill-spent, either by companies who have not properly defined what they are looking for, or on genuinely inadequate advice. "Some consultants are selling sector studies to companies that don't really need them," claims Stanley Crossick, chairman of C&L Belmont.

Eighteen months ago, EC consultancy was a cosy trade. Now almost every month an ambitious new firm announces its arrival

It is all too easy for companies and their consultants to be blinded by the sharp increase in the amount of legislation being proposed by the Commission from its 300-point internal market plan. Similarly, recent changes to the EC's constitution under the Single European Act have enormously complicated the procedures by which those new directives are turned into national laws.

Even the most expert consultants struggle to keep track of the Byzantine twists that individual pieces of legislation undergo in their voyage through the EC law-making system.

"You can't really bluff any more where you might have been able to bluff before," says Mr Paul Adamson, consultant for several US food and pharmaceuticals groups. "A lot of these outfits will go to the wall," predicts Nick Phillips, parliamentary consultant for Unice, the EC employers' federation.

So how can first-time 1992 consultancy users avoid the traps? Here is a sketch-map of the business, with tips for newcomers.

● **Conferences.** Hardly a week goes by without some worthily attended 1992 conference taking place in Brussels – and a look at Commissioners' official engagement lists show that the circuit is almost as active in several other capitals as well. It is at events like these that most executives make a first attempt to get their minds round the internal market.

They can be a good way of hearing about the details of the 1992 plan first-hand, but good programmes are getting more difficult to find. Hard-pressed Commission stars like Mr Fernand Braun, head of the Brussels executive's internal market directorate, get up to five invitations to various speaking engagements per day.

It is such a problem that the Commission recently ordered senior staff to keep public appearances to a minimum and has even started to train officials as full-time professional speakers in its Danish and French offices.

● **Lawyers.** Most of the 50 or so international legal firms in Brussels will pass on information about the progress of internal market legislation to existing clients. This is usually a sideline to their main business of conducting anti-dumping or competition suits.

Some, however, have broadened their activities, like the former Belmont legal practice which merged with consultants and accountants Coopers & Lybrand last year to provide a full advisory service, or tha legal firm Eurolink which made an association agreement with Ernst & Whinney in 1983.

● **Accountants.** Most of the big international firms lay on conferences and seminars. They also provide basic 1992 information services, feeding data about the latest state of play on individual directives to clients and to their own offices in individual member-states. It is a relatively easy service to provide, and several observers feel there are already too many of them.

Some firms, though not all, are trying with mixed success to set up 1992 units within their existing management consultancy arms.

"A lot of businessmen are too preoccupied with the detail of 1992, when what they really need to do is examine the whole picture and then look at

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their own strategies," warns Mr Derek Chapman, executive consultant on Ernst & Whinney's 1992 practice.

Other firms are disconcerted to find that their best customers come from outside Europe. Mr Graham Branton, manager of the accountancy firm KPMG's EC centre admits to being surprised that the first two corporate clients for his strategic review service were US and Japanese.

● **Mainstream management consultants.** While some of the larger firms, like McKinsey, are already well established in Brussels, they are expected to continue to advise clients on 1992 through local offices in different member-states.

● **Public relations firms.** The London-based companies Burson-Marsteller, and Hill and Knowlton, have been in Brussels since the early 1960s and tend to specialise in lobbying more than consultancy.

However, one or two non-resident firms have hired individual consultants as agents to pass information that might be useful to domestic clients. One example is Charles Barker, which uses Adamson as its adviser. Curiously, Saatchi and Saatchi have yet to emerge on the scene.

● **Small consultancies.** Outside legal and accountancy firms, this is where the market is growing fastest. Small consultancies embrace several dozen one- or two-man specialists, whose ebilities and charges vary enormously. "You can charge anything from £50 an hour as a relative unknown, up to £125 per hour if you went to school with Jacques Delors," says one operator.

● **Trade associations.** Their real job is to lobby on behalf of members, usually national trade federations, so full-time consultants do not rate them highly as competitors. But one or two, like the American Chamber of Commerce, also provide useful information services.

● **In-house consultants.** A growing number of companies, like IBM, Monsanto and ICI are preferring to send their own men as 1992 watchers. Their main sources of direct political intelligence are the committees of the European Parliament, the most open – perhaps because it is the least powerful – of the EC's institutions. This can be uphill work.

"Sometimes you have to put in more than you get out," confesses Mr Dirk Hudig, resident EC-watcher for ICI, which has had an office in Brussels for this purpose for 15 years. "This function is too important to delegate. It's easy to find out what's going on, but the real problem is how to interpret it."

Of course, only the larger companies can afford the ICI-type approach, which is why the alternatives, independent consultants, are in such demand. The edvice for the smaller companies looking for an EC consultant for the first time is not to enter the Brussels jungle alone. "Look at your main existing advisers," recommends C&L Belmont's Mr Crossick. "It doesn't matter who they are, but so long as you are already valued clients, they should not sell you short."

British Steel inquiry is sharp reminder of EC policing powers

By William Dawkins in Brussels

THE UK Government cannot be delighted that British Steel will go public next month complete with European Commission allegations of illicit price-fixing.

The Brussels authorities named the state-owned steelmaker last Friday as a suspected member of a stainless-steel price and production fixing cartel believed to involve Europe's eight other leading stainless producers.

They have been given six weeks to respond, following which Commission competition experts will take another few months to decide whether their suspicions are justified.

Luckily for British Steel and the others, EC officials confirmed yesterday that it is extremely unlikely that Brussels would use the full extent of its draconian powers to set huge fines, should the occasion arise.

Nobody expects the Commission's conclusions, due early next year, to inflict serious financial damage. Even so, the inquiry is a sharp and – by chance – timely reminder to investors that British Steel inhabits a market where Brussels has tougher policing powers than in other industries.

EC steel rules only allow cartels when the market is in crisis and when the Commission and EC Governments give their consent, none of which was the case when these companies were suspected of colluding. Neither does the inquiry help the image of a company which has argued hard in the past for a free EC steel market.

In theory, EC coal and steel rules give Brussels the power to fine British Steel 10 per cent of its £4.1bn turnover, or £400m. It could do so without consulting national officials, as is the case in other industries. In practice, the Commission might probably go for a token, but still substantial fine, in line with its stance on past infringements of other steel rules.

Of course, the inquiry has a long way to go before Brussels decides whether to set penalties, let alone of what size. However, unofficial indications yesterday were that £40m – roughly equivalent to 10 per cent of British Steel's own stainless sales – would be the right scale for a contemplated fine for the entire alleged cartel. Even so, that would be well in line with the Ecu58m (£38m) record penalty imposed two years ago on 15 top EC petrochemical producers for fixing the prices of polypropylene.

Brussels became alert to the stainless steel issue when customers complained that prices had started to climb fast early last year, at a time when the rest of the steel industry was still in a recession. Some alleged that producers in other EC countries refused to supply them.

By late last May, the Commission believed it had enough evidence to launch surprise raids simultaneously at the offices of the EC members of the suspected cartel. Apart from British Steel, they are Thyssen and Krupp of West Germany, Acerinox of Spain, Terni Speciali of Italy, ALZ in Belgium and Ugine of France.

Officials did not have the legal power to raid the non-EC producers being investigated, Outokumpu of Finland and Avesta of Sweden, but those companies could nevertheless be fined.

The demand for explanation that went out to the steel companies last week was the end-result of what Commission officials say they found in the documents seized in that raid. They claim to have clear proof of a cartel at work in cold rolled flat products, raw materials for the chemical, brewing, food processing and building industries.

One of the members of the suspected ring, ALZ of Genk, Belgium, subsequently claimed that the companies involved met every few months as the so-called "Sendzimir club", named after a stainless steel production method. ALZ firmly denied the existence of a cartel, but said prices and statistics were discussed.

The Commission timed its raid well. It showed, just ahead of the decision on the official quota system, the seriousness of Brussels' plans to dismantle steel market restrictions. The fact that the next stage of the inquiry should surface with British Steel's flotation is genuinely poor luck.

SHIPPING REPORT

Tanker owners in strong position

TANKER owners have been in a strong position over the past week as oil companies rushed back into the market to take advantage of increased crude prices and increased Saudi Arabian production, Terry Dodsworth reports.

According to Galbraith's, the London ship broker, demand was heavy in the large ship category, with one major US oil company chartering eight very large and ultra large carriers from Saudi Arabia to various destinations.

Rates ranged from Worldscale 42.5 for a 380,000-ton vessel destined for the US Gulf, up to Worldscale 60 for a 280,000-ton carrier bound for the Red Sea.

Prices were strengthened by a shortage of capacity as some shipowners held back from chartering on the prospect of an even stronger market.

WORLD ECONOMIC INDICATORS

FOREIGN EXCHANGE RESERVES (US$m)

	Aug '88	July '88	June '88	Aug '87
UK	38,812	38,222	37,224	25,386
USA	18,017	14,056	10,793	14,556
W. Germany	53,738	56,060	59,439	56,059
Japan	83,606	82,467	81,304	65,299
Italy	26,307	27,236	24,837	16,311
France	26,321	27,044	26,738	28,615
Belgium	7,542	7,582	7,455	7,463
Netherlands	12,962	13,242	12,980	12,519

Source: IMF

UK NEWS

BBC plans fifth radio network by 1990

By Raymond Snoddy

THE BBC yesterday announced the creation of a new national fifth radio network to carry all forms of educational broadcasting and sport.

Radio 5 will be on the air by 1990 and is part of a reorganisation of BBC radio networks and a move to end simulcasting – the broadcasting of the same service on different frequencies.

The new national radio network was announced by Mr David Hatch, managing director of BBC network radio at the Radio Show at Earls Court in London.

It will carry all BBC radio educational programmes – Open University, continuing education, and schools programmes, plus the entire sports output.

The controller of the first new national network for 21 years will be Miss Patricia Ewing, aged 48, at present head of BBC radio sport.

Radio 5 will be broadcast on the current radio 2 medium wave frequency – 693 and 909 KH or 433 and 330 metres.

The BBC is to get an additional VHS or FM frequency by international agreement from 1990, so Radio 1 and Radio 2 will no longer have to share an FM frequency.

In addition, the Government has asked the BBC to give up two medium-wave frequencies by ending simulcasting to set up new national commercial radio networks. Radio 3 will eventually be broadcast only on an FM frequency.

Cheaper coal benefits may pass to shareholders, not consumers

Two-tier contract planned for power groups

By Max Wilkinson, Resources Editor

THE UK's privatised electricity generating companies will be allowed to keep much of the benefit of cheaper coal and improved efficiency for their shareholders rather than passing it directly to consumers, according to the latest Government thinking.

The plans, which are still the subject of strong argument and uncertainty in the industry, envisage a two-part contract between generating companies and the 12 area distribution companies. The prices which distributors may charge to their customers will be regulated by a formula with four separate components.

The general shape of the contracts and regulations are now being debated alongside the draft Electricity Bill, which is now being circulated for comment in advance of publication towards the end of the year. The more important licences for individual companies will not be ready until well into 1989, however.

All parties are now broadly agreed that the 12 distribution companies will be privatised with a portfolio of contracts for electricity to be delivered from individual power stations. The plant will be operated by the two generating companies, Big G which will own 70 per cent of the plant including all the nuclear capacity, and Little G which will be given the rest.

The electricity will be transported by a separate national grid company, which will be owned jointly by the distribution boards, but operationally independent. Each power contract is expected to be split into two parts, a "capacity charge" reflecting capital costs, and an "energy charge" covering fuel and other costs.

The capacity charge will provide profits large enough to give the generators an incentive to build new plant. One of the main difficulties for the Government has been to reconcile this network of two-tiered contracts with the need for a central control system which will always keep the most efficient plant running at the expense of the less efficient.

When it announced plans for privatising the industry in February, the Government said the present centralised "merit order" system for running power plant would continue, but it did not explain how this would be reconciled with private power contracts.

It now appears that the distribution companies will hand their contracts to the grid company which will use them as a basis for running the merit order. The different "energy charges" will show which would be the cheapest power stations to run at any time.

These energy charges will be based on the real costs of running each power plant at the time of privatisation but will vary as a result of links to the exchange rate and an index of fuel prices.

It is expected that the actual costs of running a power station may soon move out of line with the contracted energy charge as generators seek efficiency measures or find cheaper cargoes of coal. When this happens, the generating companies will be able to offer a spot-related price to the grid company in the hope that they can keep on running power stations which might otherwise be shut down in periods of weak demand.

Although officials concede that the system will be complicated, and will require a vast computer to reconcile payments, the policy question is simple – which side benefits from cheaper coal?

The benefit could be retained by the grid company which would share it out between distributors, or it could be kept by generators. The consensus among officials is that unless the generating companies are allowed to keep the immediate benefit, they will have no incentive to play the efficiency game. They will, therefore, be paid the full contract price, even if their costs fall.

However, it is thought that in the longer term, distribution companies will be able to capture some of the benefits when they renegotiate their contracts. For this reason, the Government is unlikely to sanction contracts much longer than five to 10 years, when the industry is privatised, even though some City of London advisers would prefer a more stable regime. The question of how much of the efficiency gains can be reflected in consumer prices will depend on the effectiveness of the Regulator for the industry and the terms of the pricing formula.

Annual price rises are likely to be limited to Retail Price Index (RPI)-X+Y±E, where RPI represents the inflation rate and X is an arbitrary efficiency factor of perhaps 1 or 2 percentage points, similar to that used for regulating British Telecom and British Gas. The terms Y and E will allow changes in fuel and capital costs to be reflected in prices but may for presentational reasons be combined as one factor.

However, it seems that the industry has lost its argument for complete pass-through of increased capital and fuel costs. The Government is likely to say that only a proportion – perhaps 80 per cent – may be passed on to consumers, with the remaining risk borne by shareholders.

Training scheme suffers heavy drop out after only a month

By John Gapper, Labour Staff

THE GOVERNMENT'S £1.5bn Employment Training scheme has run into problems in its first month, with up to half the trainees in some districts dropping out early on, and training managers falling behind schedule in filling their places.

The scheme, which offers training to the long-term adult unemployed, is regarded by the Government as vital not only in helping the long-term unemployed back into work and so reducing their numbers, but in bridging the gap in the availability of labour likely to arise from the expected decline in the number of young people in the labour market in the early 1990s.

The Trades Union Congress voted last month to boycott the scheme and a boycott motion was also passed at the Labour Party conference last week.

The problems of the scheme's managers – local organisations carrying out the training of the long-term unemployed – have been compounded by a backlog of trainees waiting for referral.

Training managers in parts of London are said to be having particular difficulty filling their places, and some have started recruiting the unemployed directly rather than waiting for them to be referred by training agents.

Training Agency figures show that, in the County of Avon, of the 122 adult unemployed who joined ET in September, 49 have already dropped out, and only 27 have reached the stage of training with the county's 22 managers.

The Government has not disclosed details of the drop-out rates for the scheme, which was launched on September 5. It has said only that 64,000 people were referred to training agents – the first stage in the ET chain – in September.

It says that action plans – assessments made by agents before trainees are referred to managers – have been completed for 25,000 people. ET is intended to cater for about 600,000 unemployed people each year, each staying an average of six months.

A shortage of trainees being referred to and staying with managers would lead to widespread financial difficulties for managers, many of whom have to keep their schemes 90 per cent full to receive enough funding to remain viable.

The Department of Employment's Training Agency – formerly the Training Commission – can subsidise training managers whose rate of occupancy on schemes falls below 90 per cent in the first year.

British Coal faces reduced chances of breaking even

By Maurice Samuelson

BRITISH COAL's chances of breaking even in the current financial year are under increasing strain because of falling oil prices and the risk that more collieries may have to close over the next eight months.

As a result of depressed oil prices, the electricity industry, British Coal's main customer, is seeking a cut in its coal bill of well over £100m a year.

That is additional to the annual reduction of £330m won two years ago by the Central Electricity Generating Board after the collapse in oil prices.

Despite confident predictions by Sir Robert Haslam, British Coal's chairman, such a concession could seriously affect prospects of breaking even in this financial year.

The corporation's balance sheet would be affected even more if it decided to cut any big collieries before the middle of next year.

Of the "handful" of closures which Sir Robert says are possible, one might be at Bilston Glen, in Scotland, which employs about 1,000 men.

The workforce there was recently given a few weeks to increase output substantially if the pit was not to be placed on the danger list. The result has not yet been announced.

The cost of such a closure, involving heavy redundancy payments, would affect the corporation's balance sheet for the financial year ending March 31, 1989, even if the closure decision were not announced until next June.

Fears for the future of Scotland's three surviving deep mines were accentuated last week by the announcement from the South of Scotland Electricity Board that it might buy electricity from the Peterhead power station. The North of Scotland Hydro-Electric Board, which owns the Peterhead station, wants to convert to surplus gas from the North Sea's Miller Field.

The CEGB and British Coal are discussing coal prices for the last year before the CEGB is broken up before its privatisation in the early 1990s. The talks would normally cover deliveries for the 12 months from November 1, 1988. However, with the two successor generating companies due to replace the CEGB on January 1, 1990, the deal is expected to last for an additional two months until the end of next year.

Under a CEGB-British Coal national joint understanding, prices for some of the coal delivered to power stations are adjusted to reflect price movements in heavy fuel oil. In the past year, fuel oil prices have dropped from about $80 (£47) a tonne to the present $50 a tonne.

The corporation, which sells nearly 9m tonnes of coal a year to industry, is also worried about the price of 10m-11m tonnes of imported coal.

Most of the imported coal offered to industry comes from Australia, the US and Colombia. South African coal is believed to account for only about 3.5 per cent of total imports.

The corporation frequently boasts that since the 1986 collapse in world energy prices, accentuated by sterling's strength against the US dollar, only one large industrial customer has been lost to imports.

However, with factories being offered coal for about £30 a tonne, compared with British Coal's average production price of more than £45 a tonne, the corporation has had to pay dearly to maintain its market share.

CEGB is asked to compare costs

By David Green

THE CENTRAL Electricity Generating Board is reconsidering its refusal to compare publicly the cost of coal-fired generation with proposals for Britain's second pressurised water reactor (PWR) nuclear power station at Hinkley Point, Somerset.

Mr Michael Barnes QC, the inspector conducting a public inquiry into plans for the Hinkley Point C plant, has made it clear he will accept evidence on coal/nuclear price comparisons from objectors, despite the board's long-stated refusal to provide its own figures.

At the end of the first week of the inquiry, he formally asked the CEGB to reconsider its decision and to provide figures without prejudice to its contention that coal/nuclear price comparisons were irrelevant.

The CEGB is expected to reply this week. It has claimed so far that to provide cost comparisons would be to challenge government policy.

That is because the white paper setting out privatisation proposals for the electricity supply industry stipulates that the proportion of energy from non-fossil fuel sources should not fall below the present level.

However, a group of CEGB economists has been preparing coal/nuclear comparisons in the event that their submission to the inquiry becomes inevitable.

During the first week of the hearing Mr Barnes questioned the board closely on the reasons for its refusal. He pointed out that fuel diversity was one of the arguments put forward at the Sizewell B inquiry, when price comparisons were submitted by the board.

Objecting groups also asked why the claimed economic superiority of the PWR against coal-fired generation — highlighted in the case of Sizewell B — had been omitted from the CEGB's arguments in support of Hinkley Point C.

Mr Derek Davis, a senior full-time member on the board of the CEGB, said that although fuel diversity had been among the arguments central to the case for Sizewell B, it had since been given greater importance, both in the CEGB's own thinking and in stated government policy.

He said that with higher priority being given to diversity of fuel sources, this was the central plank of the CEGB's argument for Hinkley Point C and would remain so, whether or not the industry was privatised.

The need to diversify and to comply with government policy on the level of non-fossil fuel sources made a comparison between coal and nuclear costs irrelevant, he said.

The inquiry will resume tomorrow.

Baker seeks inquiry into teaching of Russian

By David Thomas in Leningrad

THE GOVERNMENT plans to improve the teaching of Russian in British universities after a week-long tour of Soviet educational and scientific institutions by Mr Kenneth Baker, Education Secretary.

He has asked the University Grants Committee, responsible for channelling government grants to the universities, to carry out "a short, sharp inquiry" into university courses in Russian.

The inquiry may result in the rationalisation of Russian departments, since Mr Baker believes the subject is spread over too many institutions, with perhaps two or three doing it well.

He told the heads of Leningrad university institutions, which already take British students on exchange visits, that he was planning an increase in the study of Russian at British universities.

"I expect to come out of this review with a large number of British students studying Russian," Mr Baker told Mr Vladimir Mikshin, pro-rector of Leningrad's Herzen teacher-training institute.

Referring to Western interest in the Soviet Union since Mr Gorbachev's reforms, Mr Baker said: "There are more undergraduates who want to do something Russian."

The British delegation appears more cautious about the prospects of British companies entering into collaboration with Soviet research institutes. A plea by Soviet scientists for more partnerships of this kind was one of the most unexpected developments during Mr Baker's tour.

Officials at the Department of Trade and Industry and the British Embassy in Moscow will try to ensure that the information gleaned about Soviet scientific interests is widely circulated to British companies.

However, British diplomats believe there are still considerable obstacles to UK companies doing business in the Soviet Union, including hard currency difficulties and the state of flux in many Soviet enterprises and universities because of the Soviet programme of restructuring for perestroika.

Mr Baker may ask for a review of language teaching in British schools, since he was considerably impressed by the teaching of English in Soviet schools, which is largely based on rote-learning methods.

However, he has come away with few other lessons for British education. Although he is considering how to improve the assessment of British teachers, he seems unlikely to copy the Soviet system whereby teachers are tested every five years and then sent for retraining to remedy any deficiencies.

Rothschild's welcome in the valleys

Anthony Moreton on the mutual benefits of a move into Wales

THIS morning, amid the ornate splendour of the banqueting hall of Cardiff's Norman castle, Mr Evelyn de Rothschild will welcome the cream of Welsh business to the official opening of the bank's Cardiff office.

Mr Peter Walker, Welsh Secretary, will lead the way, with Mr Wynford Evans, chairman of the South Wales Electricity Board, and Major Howard Jackson, a member of the board of the Welsh Water Authority. The privatisation of both bodies is being handled by the bank.

They will rub shoulders with Mr Geoffrey Inkin and Dr Gwyn Jones, respectively chairmen of the Cardiff Bay Development Corporation and the Welsh Development Agency.

The occasion will be as important for Rothschild as for Cardiff. The bank has concentrated its activities traditionally at New Court in the heart of the City of London.

Countless invitations to open elsewhere in Britain have been turned down by the bank. The only other branch, in Manchester, has historic links. That was where Uncle Nathan, the founder of Rothschilds, did much of his business two centuries ago.

There is no such sentimental attachment to Cardiff. Rothschild is in Cardiff because it sees the Welsh capital as a growing financial centre with a bright future. Cardiff is not part of a move to set up a network of offices.

Mr Michael Richardson, managing director of N M Rothschild, who will be chairman of the Welsh operation, says: "We may be approached to set up elsewhere, but we have no plans to branch out elsewhere in Britain.

Michael Richardson: will head the Welsh operation

Glynne Clay: managing director of Cardiff office

"After we re-opened the Manchester office 25 years ago we looked at other places. Scotland, a logical place, seemed to be well provided. Only Cardiff has the sort of future that interests us."

How important Cardiff is for the bank can be seen from the team Mr de Rothschild has brought with him. A dozen of the bank's top executives, along with another member of the family, Mr Amschel Rothschild, and Mr Glynne Clay, managing director of the Cardiff office, will be on hand to greet the guests.

For Cardiff, and South Wales as a whole, the arrival of Rothschild is equally important. For several years largely abortive attempts have been made to develop the city's financial status. Welshmen have cast envious eyes at the influence the financial community has had on the whole Scottish economy.

There were hopes that conferring full banking status on the Bank of Wales might have acted as the catalyst. But neither that nor an attempt to set up a consortium of venture capitalists had any success.

Now things are moving. Earlier this year the Welsh Development Agency, the Welsh Office and several councils led in launching another initiative, called South East Wales, to bring financial institutions to the area.

Rothschild had been looking at Cardiff before that scheme was launched. It had been attracted by the £1.5bn development being undertaken to regenerate Cardiff's docklands and had also been interested by the growth of the Welsh economy.

Later this week the first fruit of South East Wales is expected to be seen with the announcement that a leading financial institution will transfer part of its operations to the area. It will complement the Rothschild move.

The Rothschild office in Cardiff will place the Welsh capital firmly in the bank's jigsaw of international operations.

Mr Richardson says: "This network will be available to introduce companies all over the world to south Wales. We believe we could be the catalyst that brings people to Wales and leads to their investing in the country."

If there is an international dimension to Mr Richardson's thinking there is also a domestic one. He sees a great transformation in the Welsh economy with the large fall in numbers employed in coal and steel.

"In a way, this change has helped liberate the Welsh economy. People no longer look to a small number of big employers to provide jobs. They are more willing to set up on their own and develop their own businesses.

"It was once thought there were few entrepreneurs in Wales. Whatever the truth of that in the past it is no longer true. There are a lot of rapidly growing companies in the country and we want to be in Cardiff to service them. The Cardiff office will be our eyes and ears on Wales."

Mr Richardson is convinced Rothschild will not be the only top merchant bank operating in South Wales for long. "We shall be followed by others before long. That is certain."

That should give him and Mr Walker something to talk about today on the 8am from Paddington to Cardiff.

BT will be told to compensate customers

By Hugo Dixon

PROFESSOR Bryan Carsberg, director-general of the Office of Telecommunications (Oftel), the telecommunications regulatory body, has decided that British Telecom should compensate customers financially if it is late in installing or repairing private telephone lines.

The decision is due to be announced later this year, when Prof Carsberg unveils a regulatory regime for private lines. Before a compensation scheme can be implemented, however, BT will have to agree to it. If it refuses, Prof Carsberg is likely to refer the matter to the Monopolies and Mergers Commission for arbitration.

Private lines are used by businesses to link up their sites at a total cost of about £1bn a year. BT's service has come in for criticism in recent years because of alleged large price rises and poor quality of service.

Mercury Communications, BT's network rival, introduced a compensation scheme for its own private line service last month. BT's own compensation scheme covers only normal public lines and does not come into effect until April.

Prof Carsberg has decided on the principle that the BT scheme should be extended to private lines and that its prices should be capped, Oftel said last week. The details of how this is to be done have yet to be determined.

Mr Brian Reynolds, of the Telecommunications Managers Association, which represents business phone users, said that a steep rise in the cost of private lines over the last five years had made it difficult for businesses to forecast expenditure. BT should not be allowed to increase prices by more than the rate of inflation, he said.

BT refused to comment on how it thought private circuits should be regulated.

Birmingham Airport to build transfer terminal

By Richard Tomkins, Midlands Correspondent

BIRMINGHAM International Airport is planning a terminal building which it says will be the first in Britain to be designed specifically for transfer passengers.

The £50m terminal is intended to serve Birmingham's developing role as a transfer airport for business travellers between other provincial cities and the Continent, and will relieve pressure on the existing building.

Birmingham handled 2.7m passengers in the year to March compared with 2.3m the year before. Just more than half were on holiday charter flights, but scheduled passenger traffic is growing faster.

The buoyancy of the West Midlands economy and the success of the National Exhibition Centre have boosted business travel. Another factor has been British Airways' policy of basing its regional "hub and spoke" operations on Birmingham.

Birmingham says that the new terminal is not aimed at separating holidaymakers from business travellers, but it seems likely that this will be the result.

British Airways is collaborating with Birmingham Airport on the project and will co-finance it, probably with other parties. Completion is scheduled for 1991.

Flights from US 'would help north-west economy'

By Michael Donne, Aerospace Correspondent

THE NORTH-WEST would gain additional income of more than £40m a year and an extra 3,500 jobs if three US airlines were allowed to fly direct services between Manchester airport and New York and Boston.

That is the conclusion of a private study by the Business Services Department of Salford University, commissioned earlier this year by Manchester Airport.

The study argues that the additional income would stem from additional spending in the region by business and tourist visitors, and not only from such items as landing fees, charges for baggage and freight handling, office rental and commercial income from passengers.

The airlines involved are American Airlines, which already flies between Manchester and Chicago but now also wants to add a service to New York; Pan American, which also wants to fly to New York; and Northwest Airlines, which wants a Manchester-Boston route.

Negotiations on these bids have now reached a critical stage, with the British Government in return asking for "onward rights" into the US from New York for both British Airways and Virgin Atlantic Airways.

Companies are urged to complain

By Charles Batchelor

SMALL BUSINESSES which are dissatisfied with the advice they receive under the Government's Enterprise Initiative have been urged to complain by Lord Young, Trade and Industry Secretary.

The initiative, which provides subsidised management consultancy help for smaller companies, is being monitored by the Government, Lord Young told a meeting of the Confederation of British Industry's smaller firms council. The number of consultancy contracts involved — 1,000 a month — means this is being done on a sample basis.

Small companies which had made use of the scheme were generally favourable in their judgment, but some were critical of the variable quality of the consultants it employed, the council said.

Smaller company members of the CBI complained that the schemes were only as good as the consultants operating them, Mr Harry Kleeman, the council's chairman, said.

The companies are expected to complain to the scheme's "contractors" — organisations such as The Design Council, the Institute of Marketing or Investors in Industry (3i), the venture capital group, which administer parts of the initiative for the Government.

The initiative has £250m to spend on consultancy over the next three years in fields such as marketing, design, production management and business planning. Some consultants have expressed concern that the tight limits on fees imposed by the Government will mean that small companies do not receive advice of good quality.

The smaller firms council also called for Britain to become a full member of the European Monetary System. "Currency fluctuations can represent a real obstacle to smaller firms anxious to take full advantage of the opportunities offered by the single market," Mr Kleeman said.

● Salessouth, a Milton Keynes-based supplier of vehicle components, parts and services, was one of the first companies to benefit from the Enterprise Initiative, it was announced over the weekend.

Salessouth was advised on the use of computers in management planning by the local office of accountants Peat Marwick McLintock

Engineering shortage to be investigated

By Richard Tomkins, Midlands Correspondent

THE ENGINEERING industry is to join the Government in an investigation into a shortage of youngsters applying for and completing university courses in engineering.

According to the Engineering Employers' Federation, applications for university courses in general engineering fell by 28 per cent this year. Civil and electronic engineering courses showed falls of 10 per cent.

The fall in the number of applicants coincided with an increase in the number of places available and the introduction of new courses, such as those in manufacturing systems engineering.

The industry is also concerned that the drop-out rate from some university engineering courses is running at 20 per cent or more — twice the average level for all university courses, the federation says.

Both phenomena are to be investigated over the next six months in surveys to be funded jointly by the federation, the Engineering Industry Training Board and the Department of Education and Science.

One survey will look at the factors that influence young people studying for maths and physics A-levels in deciding whether to study engineering. A parallel survey will ask why students drop out of engineering courses and where they go instead.

Mr Nigel Chubb, director of the Engineering Employers' East Midlands Association, said more effort should be made by companies and his organisation to ensure that career opportunities in engineering are presented as being attractive to professional people.

Lawson sees benefits in full membership of EMS

By Simon Holberton, Economics Staff

MR NIGEL LAWSON, the Chancellor, yesterday broke his long silence on full British participation in the European Monetary System (EMS) and said the Government's fight against inflation could have been helped by UK membership.

Mrs Thatcher is opposed to Britain joining the EMS fully and has said Britain would become a full member only when the time was right.

Mr Lawson's remarks went beyond this "time-is-right" formula used by ministers when talking about Britain and the EMS.

In an interview with The Sunday Telegraph, Mr Lawson said membership of the EMS could have afforded two advantages to the Government, although he admitted that "we don't know how exactly British membership would have worked out in practice."

The first was that business and induetry would hsve known that devaluation was not an option for the Government and this would have acted as an important financial discipline on them.

Nigel Lawson: reopening EMS membership debate

The second advantage was that financial markets would have known that there would not be a "substantial hike in sterling" because currency movements in the EMS were small and relatively rare.

Mr Lawson is on the record as supporting a managed exchange rate system. He shares the concerns of industry over exchange rate volatility and favours stable currency rates.

However, he came into conflict with the Prime Minister and one of her economics advisers, Sir Alan Walters, earlier this year over the decision to allow the pound to rise above DM3.00. Interest rates were cut from 9 per cent to 7½ per cent in an attempt to stop the pound rising sharply.

He was criticised for paying too mnch attention to exchange rate stability and not enough to reducing the rate of inflation.

Mrs Thatcher, in a recent interview with the New York Times, reiterated her opposition to EMS membership and appeared to hint that with the advent of capital movement liberalisation throughout the European Community in the run up to 1992 that the EMS would break up.

In his interview with the Sunday Telegraph Mr Lawson also reaffirmed the Government's commitment to the retention of mortgage interest relief, although he said if he were starting a tax system from scratch he would not wish to introduce it.

Government faces Lords challenge on housing

By Peter Riddell, Political Editor

THE GOVERNMENT faces a challenge in the House of Lords this week to its plans to allow the transfer of council housing estates to the control of private owners or housing associations.

The Lords returns from its summer recess today at the start of a five-week overspill session to complete work on the heavy legislative programme launched in the Queen's Speech in June 1987.

Among bills still to complete their parliamentary passage are those dealing with housing, health and medicines and European Community finance.

Housing measures have always been difficult for the Government in the House of Lords and amendments that give council tenants a right to vote against their homes being included in a Housing Action Trust have already been included in the bill.

This week the Lords will debate a widely-backed Opposition amendment imposing a hurdle before housing estates can be transferred away from town hall control.

It would require 51 per cent of tenants to give their approval before a transfer, rather than the bill's current proposal that those not voting should be counted as in favour.

On the health and medicines bill the Government will seek to reverse in the Commons the substance of Lords amendments in July which rejected charges for initial dental and eye tests.

Ministers are also braced for a lengthy battle with 20 Conservative MPs, as well as the opposition, over the bill to increase the resources made available to the EC.

● As much as half of all legislation affecting Britain will be handled in Brussels in the 1990s, said Lord Young, Trade and Industry Secretary.

"We have accepted and recognised over the last 20 years our future lies in Europe not with the Commonwealth, not in other parts of the world," Lord Young said on the BBC programme On The Record.

Conservatives urged to tackle 'middle class dependency'

By Peter Riddell, Political Editor

THE GOVERNMENT should tackle the "middle class dependency culture" of mortgage tax relief and other subsidies, the Bow Group, an independent Conservative research body, urges on the eve of the party conference in Brighton.

An editorial in the group's magazine Crossbow argues that the dependency problem has been viewed in "a worryingly blinkered way."

"The images conjured up are those of the unmarried teenage mother in a council flat, the long-term unemployed industrial worker and his family.

"A full account should include the middle class family drawing no welfare benefits or dole, but mortgaged up to their eyeballs. The average middle class, property-owning paragon would find his family budget badly unbalanced by the withdrawal of current government largesse.

"Try suggesting to a Conservative constituency gathering that mortgage interest relief be scrapped. Or that capital gains tax exemptions should not extend to housing. Or that child benefit be means-tested. Or that British Rail's Network SouthEast should not be subsidised.

"But go armour-plated, or do not expect to survive."

The editorial argues that such dependency has reached "grotesque proportions." It adds that dependency is a significant cause of economic problems and a contributory cause of many social ills.

"We must work systematically to reduce it to the lowest possible levels," the editorial says.

In a further contribution to the pre-conference debate, the Committee for a Free Britain, a free-market and anti-Communist group, strongly attacks the the Foreign Office for its failure to appreciate the true nature of the Soviet threat and for alleged inconsistency.

Consequently, it urges the introduction of competition into policy advice, with closer prime ministerial control, especially over intelligence.

The committee links the Foreign Office with Conservative Central Office as institutions which have escaped "the refreshing breath of Thatcherite reform."

It says, in a separate paper, that radical improvements are needed in the Conservative Party's ability to communicate.

Icy calm before a market storm

Richard Waters assesses the threat to the Seaq quotation system

LONDON'S International Stock Exchange was maintaining an icy calm at the end of last week. That is no small feat, given the magnitude of the threat it faces: the possible disintegration of its cherished quotations system, and along with it the transparency and certainty enjoyed by users of its markets.

The threat was precipitated by Friday's decision of Barclays de Zoete Wedd, the investment banking arm of Barclays, to reduce the size of deals it is prepared to transact at prices quoted on the exchange's Seaq trading system. Rather than committing itself to transactions running into hundreds of thousands of shares, it now buys and sells parcels of only 5,000 shares at quoted prices.

Phillips & Drew took a similar step six weeks ago. The decision of BZW to follow suit, after initial scepticism, indicates a significant decision by a prominent market-maker, and greatly increases the likelihood that others will follow.

Warburg Securities, another prominent firm, said last week that it will be discussing the implications of BZW's move with its own clients over the next few days, but declined to say whether it favoured following BZW's lead.

On one reading, the P&D and BZW actions put a bomb under the Stock Exchange. Seaq, a computerised system based on quotes from competing market-makers, is meant to ensure a transparent and fair market. However, customers will now need to telephone some market-makers direct to discover at what prices they are prepared to buy or sell any but the smallest number of shares — leaving Seaq in tatters.

"It undermines the concept of a central market," said the chief executive of one leading securities firm. "There is a loss of certainty and a loss of liquidity. People can easily find themselves dealing at the wrong price. It's bad news for the UK equities market."

There is a second, less apocalyptic version of events. This holds that investors will actually benefit — and that the development will hasten the shake-ont among market-makers that has become likely since the stock market crash last year and the subsequent slashing of business transacted in the market.

The main issue for investors is what happens when the expected shake-out of market-makers is at an end

The reasoning is as follows. The prices that P&D, BZW and perhaps others quote on Seaq, although only for small deals, will hold good for larger deals from genuine clients. For genuine clients read investors, or agency brokers looking to transact deals on behalf of investors. Whether such customers understand the new rules of the game is another matter, and something that will be the subject of many reassuring telephone calls to investors this week.

However, rival market-makers will get short shrift. They will be quoted unattractive prices to discourage their business. That is because firms like BZW are no longer happy with effectively running positions on behalf of other firms.

A truly open system allows market-makers to close down their positions each day by simply loading them onto their larger competitors. Firms like BZW believe that they end up supporting more than their fair share of the market, and that is costly in terms of the capital they have to commit to their dealing businesses.

BZW also last week cut the spread between the prices at which it buys and sells shares, further reinforcing the view that it has its sights set on a fierce price war.

Firms not directly in the firing line but threatened from the fallout of these changes claim to be able to live with the war now expected. James Capel, a leading agency broker, said that it would continue to be in a position to deal with marketmakers st the best prices — a claim reinforced by BZW's chief market-maker, Mr Peter Holloway, who said that he was eager to continue transacting business with "anyone who adds value and genuinely brings new business to the market."

Interdealer Brokers (IDBs), the specialists who arrange deals between rival market-makers, also claimed to be immune. Mr David Hagan, managing director of Tullet & Tokyo, said that his firm would continue to prosper since the current trading system relies on such middlemen.

However, a drop in the volume of business between dealers must inevitably hit commissions at IDBs. Mr Hagan and his counterparts at other firms will have to console themselves with the thought that intra-market business in the past has been greatly out of proportion to the amount of business done with genuine end investors.

Investors, for their part, should feel relatively calm about these developments. They will have to read between the lines on Seaq: sceptics claim that Seaq prices and volumes have always shown the message a dealer wants to project to the market rather than terms on which he is genuinely prepared to trade.

The big question for investors is what happens when the expected shake-out of market-makers is over? A small group of dominant firms may have the market share that enables them to reinstate the sort of comfortable margins that are being so painfully squeezed. Spreads would then increase again.

The Stock Exchange, meanwhile, no doubt looks forward to some sort of market stability and must content itself with the thought that most customers are likely to be getting a good deal in the meantime.

Do not be surprised if the exchange flashes onto all trading screens the legend: "Normal service will be resumed shortly."

Editorial comment, Page 20

Cost of living 'has risen 7%'

By Ralph Atkins, Economics Staff

THE AVERAGE UK family would have needed an income rise of 7 per cent in the past year to maintain a constant standard of living, according to a survey released today.

The cost of goods and services rose by 5.4 per cent in the 12 months to July, the report shows. House prices increased by almost 35 per cent.

The survey compiled by The Reward Group, the pay and cost of living advice company, is based on research carried out in July.

This was before recent rises in mortgage rates increased the cost of mortgage repayments and in turn the cost of maintaining a constant standard of living.

The report shows big variations between regions. In the south-west, a 14.4 per cent increase in income was needed by an average family to keep a constant standard of living.

In the south-east, a rise of 11.0 per cent was needed. But in Scotland, incomes could have remained unchanged.

Looking at shop prices, the survey shows Barnsley as the cheapest place to live, followed by Rotherham and Doncaster. The three most expensive were Belfast, and Kirkwall and Lerwick in Scotland.

If house prices are included, the most expensive place to live is Greater London and the cheapest is Larne in Northern Ireland. However, this gives a slightly misleading impression, because it assumes the family bought a house at the time of the survey.

The report also shows a "quality of life index," comparing average income in a region with cost of living. Top of the list is the north of England. At the bottom is Greater London. There the cost of living is 36.1 per cent above the national average, while middle managers' pay is 11.9 per cent above the national average.

The report's survey of house prices shows that the price of a three-bedroom semi-detached house rose fastest in East Anglia, rising at an annual rate of 83 per cent — or £72 a day.

In London, houses of the same type were rising at an annual rate of 36 per cent — or £91 a day. In Northern Ireland, the annual rate of growth was only 2 per cent.

Cost of living: Regional Comparisons, September 1988; The Reward Group, Diamond Way, Stone Business Park, Stone, Staffordshire ST15 0SD. £60; annual subscription (two copies), £100.

Leading TV figure takes BSB post

By Raymond Snoddy

BRITISH Satellite Broadcasting has attracted one of the most respected figures in the UK broadcasting industry, Mr John Gau, to be its director of programming and deputy chief executive.

Mr Gau, a leading independent producer, is chairman of the Royal Television Society, a non-executive director of Channel 4 and former chairman of the Independent Programme Producers' Association, which represents more than 700 independent production companies.

The appointment lends weight to the claim by BSB, which plans to launch three new channels of national television next autumn, that it aims to be the "third force" in British broadcasting.

Mr Gau is a former head of current affairs at BBC television, was editor of the early evening news and current affairs programme, Nationwide, and conceived both Newsnight and Question Time.

He said: "Satellite broadcasting is going to be part of the British home, just like the video recorder is now. It's going to be part of our leisure activities. The question is making it work."

Other management changes have also been made by BSB, the main shareholders of which include Granada, Pearson (publishers of the Financial Times), the Bond Corporation of Australia, and Reed International. Mr Graham Grist, managing director for finance and operations, will also be a deputy chief executive and Mr Gunnar Rugheimer, at present in charge of Galaxy, BSB's entertainment channel, becomes director of corporate development.

Mr Bob Hunter, managing director of Now, the news and sports channel, will also run Galaxy, helped with programme acquisition by Mr Andy Birchall, managing director of The Movie Channel, BSB's subscription film service.

BSB has to raise at least a further £400m next year to add to the £222.5m already committed. The direct broadcasting service will face fierce competition from Astra, a 16-channel satellite due to be launched in December. Astra could be broadcasting up to 14 English language television channels, including four from Mr Rupert Murdoch's Sky Television.

Interest rates 'should be cut next year'

By Simon Holberton, Economics Staff

THE RISE in interest rates to 12 per cent will bring monetary growth under control and suppress the growth in consumers' spending, according to the Liverpool research group in macroeconomics.

In its latest quarterly forecast of the British economy the group warns, however, of a risk of "over-kill" if interest rates are not cut early next year.

Professor Patrick Minford, head of the research group, says in prefatory remarks that once the growth of M0, the Treasury's targeted monetary variable, comes back on course to 1 to 5 per cent growth from the current level of 8 per cent, interest rates will need to fall to avert squeezing the economy too harshly.

They should revert to a more normal 9 per cent level next year and fall slightly further thereafter, he says.

He foresees the economy growing by more than 3 per cent a year over the next three years, with unemployment and the trade deficit falling.

The Liverpool group's inflation forecast has been revised upwards but he says that inflation should fall next year to about 4 per cent and to less than 3 per cent in 1990.

● Dun & Bradstreet, the business information company, says its latest business survey indicates that higher interest rates are having an effect on industry but not on consumer demand.

The D&B survey, of 1,000 unquoted companies, shows some moderation in business confidence from the early part of this year although it stands above the levels prevailing at the same time last year.

It says the 4½ percentage point rise in interest rates has resulted in "slow down in industrial growth with optimism for sales, profits, new orders and inventories all down on the previous quarter."

D&B says retail sector optimism indicates that "the recent rises in base rates have not yet stemmed the consumer boom."

Economic notebook, Page 35

Impact of family debts to be studied

By Alan Pike, Social Affairs Correspondent

BRITAIN'S increase in personal credit and the difficulties of debt which it may be provoking are to be the subject of a two-year research study.

The investigation, by the Policy Studies Institute, is intended to fill a substantial gap in existing research about the effects of credit on individual families.

It will be based on interviews with 2,000 families, including several hundred in serious debt.

The survey is believed to be the first of its type to be funded by a combination of private-sector, public and charitable organisations which all share an interest in the difficulties of credit and debt.

The many financial and retail organisations and public bodies among the sponsors include Barclays, Midland, and Lloyds banks; Halifax, Woolwich, Abbey National, Nationwide Anglia and Bradford & Bingley building societies; Diners Club International, United Dominions Trust, House of Fraser, the Office of Fair Trading, the National Consumer Council and the Department of Social Security.

Included in the objectives of the study will be attempts to:

● Analyse the effects of credit on both high and low income households and on members of families at different stages in their lives;

● Study the consequences of repayment difficulties and the impact of debt on different groups;

● Examine the procedures used by creditors to recover debts and the role of the courts, advice services and other agencies.

Scotland's commercial law 'may have to be merged'

By James Buxton, Scottish Correspondent

A LEADING Scottish judge has warned that Scotland's distinctive commercial law may have to be merged with that of England as European Community integration advances.

Lord McCluskey, one of Scotland's most influential legal figures, said that Scottish businessmen and lawyers were handicapped because they had to choose whether to apply Scottish or English commercial law to a contract.

If they applied Scottish law, "our EC partners will be ignorant and suspicious" of it, he explained. If they chose English law, it meant going to London for the best advice.

In a speech in Aviemore to the Scottish Council (Development and Industry), a widely representative body which promotes the Scottish economy, he said: "When it comes to companies, insurance, sale of goods, product liability, consumer credit, insolvency, bankruptcy, construction contracts, even the basic law of contract itself, is there not a case for making a positive move to seek harmony or even identity of laws between England and Scotland?"

He stressed that Scotland's criminal law and procedure should not be changed, and much Scottish civil law did not need to be harmonised.

But, he said: "There are times when the crude arguments of *realpolitik* overwhelm sentiment; times when the sacred cows have to be taken to the knacker's yard."

One way forward might be for the Law Commissions of both England and Scotland to meet to study the main fields of mercantile law to see if "we can bury our unnecessary differences by 1992."

He said he did not "positively advocate" seeking harmonisation of the two countries' commercial law. "I don't underestimate the difficulties. I don't pretend that the English would be prepared to take much of our law on board. We would lose some distinctively Scottish mercantile law. But it must be worth thinking about."

He believed the increasing power of the EC's central core — an area bounded by London, Frankfurt, Milan and Paris — strengthened the case for questioning "the need for legal policies that only Scots lawyers profess to understand."

He said that already more than 30 English barristers were operating in Brussels, as well as many solicitors, while Scots had made hardly any inroads into this field.

Logistics

How Apple re-vamped its supply to meet demand

Michael Skapinker on the computer company's European spare parts strategy

Apple Computer International had a problem. "We never had the right part in the right place at the right time," says Alain Bordas, the company's service logistics manager in Europe.

'Never' is an exaggeration, of course. But Bordas, who is based in Paris, says that Apple's tradition of allowing each of its 12 European subsidiaries to forecast its own demand and stock its own spare parts had begun to run into difficulties.

The company's European warehouse and distribution centre at Zeist in the Netherlands had become little more than a mail-box, processing the national companies' orders for spare parts, he says.

The national companies tended to hold too many of the parts they did not need. They also sometimes ran short of the parts they did need.

In the European subsidiaries, Bordas says, "you've got very service-minded people who want to have one of everything in stock, just in case it's needed.

"They're always over-estimating things or buying too much in advance. They tend to be too careful and overstock the slow-moving items. On the other hand, people would under-stock the fast-moving items."

Apple's drive to increase its appeal to business customers meant that service had to become a top priority. "We knew that the service organisations in various countries were very stretched by the large increase in the installed base of Apple computers in Europe," Bordas says. Subsidiaries would be able to devote more of their time to servicing their customers if they were relieved of some of their work in controlling the flow of spare parts.

"We also had very much in mind 1992 and the single European market," he says. Bordas's colleague, Stephen Glover, logistics manager for finished goods, points out that although Apple would have had to take some action on the issue even without 1992, the advent of the single market means that transport companies, for example, have put more thought into how to help companies with their Europe-wide distribution.

Alain Bordas (right) and Steve Glover: Service a top priority in order to increase Apple's appeal to business customers

About 500,000 Apple parts move through Europe each year. Some might be surprised that a company like Apple, which prides itself on the quality of its products, needs to carry out that many repairs.

Bordas insists, however, that the number of repairs is actually very small. Apple's turnover in Europe is nearly $1bn, with spare parts accounting for just $15m. "That's 1.5 per cent. In the car and farm machinery industries you're talking about 15 to 20 per cent," Bordas says.

To design a new system to control the flow of its parts, Apple turned to a British consultant, Alan Braithwaite of Logistics Consulting Partners.

Braithwaite began work last October, examining the movement of Apple parts in Europe. "We looked at the stock inventory of the existing companies as well as the movement of parts for a half-year period. We analysed each country to look at the number of parts stocked and the rate of stock turn," he says.

It soon became apparent to Braithwaite that the subsidiaries were stocking up with parts they did not need. "The companies had been left to forecast at the country level and the majority of inventory was held by the companies. Eighty-five per cent of the total European inventory was held in the countries. And the countries got what they forecast they needed," he says.

"We came up with a strategy to put the inventory where it was most appropriate and where it's going to cost us the least to get to the customer. There were 350 items which represented some 85 to 90 per cent of the items moved to end users. There were a further 500 to 600 items which were of such low value that it wasn't worth controlling them. They didn't cost enough for it to be worth writing an invoice for them.

"We said the 350 and the 600 you can stock in the countries. The balance – 2,000 – you hold centrally in Zeist. The system has to be dynamic. Parts will come and go in terms of relative importance."

Those parts which are held in Zeist, Braithwaite recommended, should be sent directly to the local dealer or end user by courier. "It's more cost effective to do that than to hold it in each country," he says.

Alain Bordas says that "in a nut-shell the recommendation was to bring back the central decision-making for Europe to Zeist. It involved thinking about a new computer system which would give us constant knowledge of spare parts in every location and would tell us the stock levels and the rate of sales.

"This way we will be in a position to do Europe-wide forecasting and place orders with the vendors in a much better thought-out way. By bringing the centre of decision-making back to Zeist, we will be able to see what parts are in short supply.

"We will also be able to see when problems are starting to appear in a new model of machine and to pick up very quickly whether something is going wrong."

By the middle of January next year, the warehouse space in Zeist devoted to spare parts will have been increased to 2,000 square metres, from 400 square metres at the time that Braithwaite did his study. Bordas says that he cannot spare Apple staff to design the computer system to control the operation. It is being developed by outside consultants. Although the system will include Apple computers and peripherals, the mainframe computer will be provided by Digital Equipment Corp.

Bordas expects the system to be completed in nine months time, although parts of it will be working before then. Initially, he says, only 10 per cent of parts will go directly from Zeist to Apple dealers.

He says, however that "we are now thinking, post-1992, about shipping directly from Zeist to the dealers, by-passing the countries. What the customer wants is to get this machine fixed. What you need for that is quick action from the local dealer."

The victims of bid bias

Stanley Wright believes that it is too easy to mount a takeover and too difficult to change management by other means. In this article he suggests a new framework for acquisitions. On Friday he argues for new legislation to cover directors

Some takeovers, agreed or not, are beneficial to employees, customers, the national economy and even to shareholders in bidder companies. However, academic evidence, and indeed acknowledged experience of at least some merchant bankers, suggests that too many takeovers benefit, if anyone at all, only the shareholders in the target company. Bids are often initiated and pursued primarily in the interests of managers.

The institutional framework for takeover bids, including the Stock Exchange, the Takeover Panel and aspects of taxation, favours large companies against small.

There are no significant cost deterrents to large companies making takeover bids. They can mount them at negligible cost in terms of their total income and market capitalisation. An offeror pays a mere £7,500 to the Panel and nothing to the Stock Exchange to clear a document making an offer valued between £25m and £100 million. Fees to advisers for resisting such a bid are roughly the same as those for mounting one and borne by a small company can be quite disproportionate to resources.

There is no effective penalty for fundamentally frivolous or pointless takeover bids. As a "general principle" the Takeover Code states "an offeror should only announce an offer after the most careful and responsible consideration". Such "responsible consideration" can reasonably be assumed when a small company mounts an offer, for costs will be high relative to profits and net assets. For a large company the same presumption does not exist, but if a small company successfully resists a bid, its shareholders bear disproportionate costs.

The "responsible consideration" principle may well be unenforceable and in any case the Panel has no power to impose financial penalties. The irresponsible manner in which big companies sometimes do mount and persist with takeover bids is reflected by some financial analysts when they talk of "players" and "war chests".

The Panel prescribes that companies that are bid targets should seek "independent financial advice". Most City intermediaries are now sellers of deals more than purveyors of advice. Curiously the boards of quoted companies are implicitly deemed incapable of doing their statutory duty without the expensive advice of city intermediaries.

The function of the Stock Market is to provide a primary market for the raising of capital facilitated by an effective secondary market. It is not an essential function of the Stock Market to provide a market for the buying and selling of companies. Yet it makes provision for this and bears the consequent costs. The Stock Market is effectively paid for by all users; bidders, particularly hostile bidders, generate costs far in excess of those which they pay.

The tax system favours bidders. Tax rates for income tax and capital gains are now normally the same. Nevertheless, if a shareholder of company A accepts a bid from company B he can get company B's shares at what is in effect a major discount without bearing the transaction or capital gains tax costs of switching. If the shareholder sold company A shares to buy company B shares there would be prospective capital gains tax and transaction costs.

Why does a government which purports to favour small companies persist with this relic of the days when size was thought a merit and when income tax rates were so high that capital gain was deemed the only "reward" for private shareholders?

Most analysts are now in financial conglomerates which have motives for keeping "sweet" the managements of large companies. Thus there is no guarantee that independent analysis will continue. It is for the investment institutions to decide whether they want such analysis. It would be easy for them to encourage the "unbundling" of analysts from market-making, broking and merchant banking.

What are the remedies? The answer is not more regulation – whether by practitioners or by politicians and civil servants. The free market answer is to remove the biases in the system favouring the big over the small and the buying of companies rather than the creation of new productive assets.

Here are some suggestions.

1. Those who use the Stock Market as a market in companies (ie bidders) should deposit with the Stock Exchange, say, 2 per cent of any offer circulated to shareholders of a target company and 2 per cent of any increase in their offer. The Stock Exchange should retain 0.5 per cent to fund its activities and those of the Panel. The other 1.5 per cent should eventually be passed to the company bid for whether it has successfully resisted the bid or accepted it before or after acceptance. This would mean that the bidder would not only, as at present, pay the costs of a target company which it acquired but would also contribute to a target company's costs if a bid were successfully defended and defray the costs incurred by the market mechanisms.
2. The tax concession for a rollover of capital gains on a share-for-share exchange in a takeover should be removed (but not necessarily for mergers concession for mergers).
3. Membership of the Panel should reflect to a much lesser extent vested City interests.
5. Independent company analysis should be encouraged by the investment institutions.

Stanley Wright is a former merchant banker and is chairman of Wolstenholme Rink.

Management abstracts

Lessons from flexible manufacturing system installation. *J. Meredith in Industrial Engineering (US), Apr 88 (9 pages).*

Investigates the introduction of FMS at Cincinnati Milacron (machine tools); describes the factory layout, component production and assembly, noting the scheduling difficulties involved. Discusses lessons learned while planning and implementing the FMS with reference to system integration, effects on personnel, costs and benefits; examines the difficulties of software integration; stresses the importance of employee education (90 per cent of total FMS effort) to overcome inertia; shows how costs to badly out of control if delays occur. Reviews benefits gained, e.g. lead time reduction and notes the advantages of running component production on a "push" basis, with assembly and FMS on a "pull" basis operating to customer order.

Policy manuals. *R.M. Morris in Industrial Management (US), Mar/Apr 88 (3 pages).*

A brief summary on policy/procedure manuals, their objectives, the risk of an expensive exercise in futility, the mechanics of producing them, the levels of review, distribution (manuals that find a home in the manager's bookcase are seen to be useless), the pitfalls (having a manual may be worse than not having one).

The relevance of ethics for management education. *R.A. Cooke and L.V. Ryan in The Journal of Management Development (UK), Vol 7 No 2 88 (11 pages).*

Argues that business ethics education is important in the training of current or future managers, and dispels misconceptions about business ethics being a contradiction in terms; draws conclusions about the structure of ethics education (in the US), finding it to be developing positively, but points to obstacles in its path.

Shopfloor control at Rockwell. *L. Gould in Managing Automation (US), Apr 88 (6 pages).*

Assesses the performance of a shopfloor control system called Promis at Rockwell (semiconductors), which is based on data collection, work-in-process tracking and planning; explains how this primary system is used in collaboration with secondary MRP to optimise control; shows how Promis gives reporting capabilities which allow for decision-making at shopfloor supervisory level.

These abstracts are condensed from the abstracting journals published by [illegible] Management Publications. [illegible]

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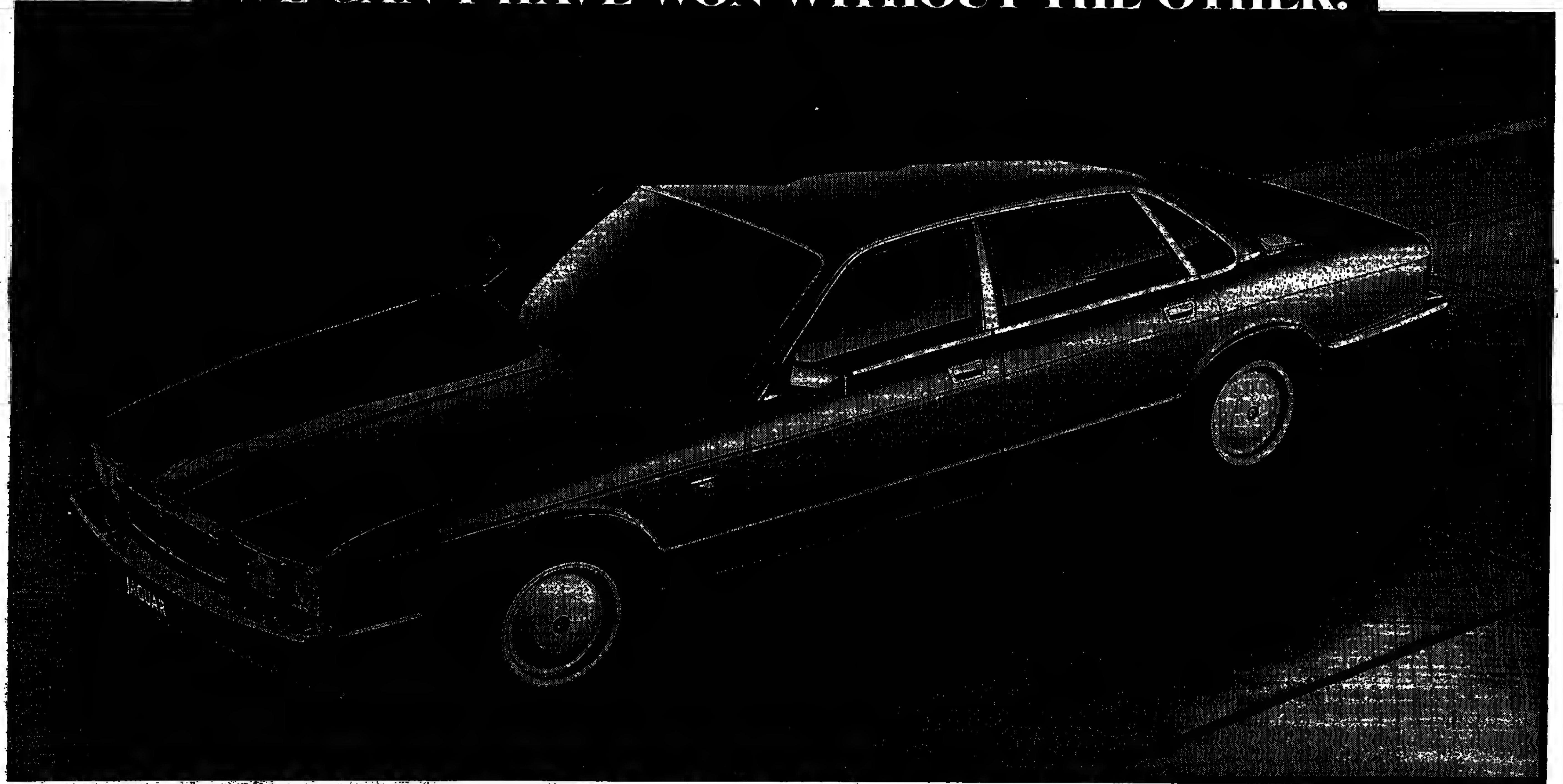

Jaguar — World Sportscar Champions in 1987, have done it again for 1988. And the gilt on the gingerbread is that this year, we won the classic Le Mans endurance race, and the gruelling Daytona 24 hours, too.

It's a story of dedication, commitment and sheer hard work.

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All credit then to, the XJ6 and Sovereign. Cars which are at first sight a world away from the thunderous XJR-9, but which have stamped their unique blend of performance, handling, luxury and silence on an international public which is wider than ever.

Quite apart from the UK, where sales this year have accelerated by 32%, the autobahns, autoroutes and autostradas of Europe are playing host to 19% more new Jaguars than last year. While in key far Eastern markets like Japan and Taiwan, sales have more than doubled.

In many other regions, sales are showing equivalent advances — success which is essential to our efforts on the track.

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Le Mans Winners 1988

Martin Brundle
World Sportscar Drivers' Champion, 1988

WORLD SPORTSCAR CHAMPIONS —1987-1988—

JAGUAR

FINANCIAL TIMES
SURVEY

Rapid change has not been without trauma, though more good than bad has come from the upheavals, reports Bob King. Reforms continue across the board, most notably in expanded openings to China. The economy maintains its stellar performance

Moving in new directions

ONE POINT can be stated without equivocation concerning the past 12 months in Taiwan: they have not been boring. The past year has brought a limited opening to mainland China and one that has expanded almost daily; the death of a long-ruling president and the end of an even longer-ruling dynasty; and radical restructurings of trade and financial policies.

Like most radical departures from traditional practice in previously static societies, the rapid changes in Taiwan have not come without trauma. The more open political climate since martial law was lifted in July 1987 has brought increasing numbers of street demonstrations by various interest groups — and some of these, such as one by farmers last May, have erupted into violence on a scale not seen in four decades.

Labour, too, has begun to agitate. After 40 years in which strikes were prohibited by the terms of martial law, the Government earlier this year enacted a law which sets out conditions for mediation and arbitration before strikes in labour disputes. And during the summer, groups of transport workers in central Taiwan exercised the extreme option, paralysing public transport for days.

Similarly, the death of strongman president Chiang Ching-kuo last January — and with it the end of an era of one-man rule that began more than six decades ago in mainland China — left a power vacuum of immense proportions. Despite the trappings of democracy that were increasingly displayed during Mr Chiang's 10-year reign as president, for instance, most citizens have only the vaguest idea of the connection between democratic rights and obligations.

Nor is the ruling Nationalist party that the Chiang family forged into an almost unopposable political machine especially geared to internal co-operation and democratic processes. In fact factionalism remains an extreme concern to party elders.

The lifting of foreign-exchange restrictions during the summer of 1987 also carried problems in its wake, at least in the short term. Following the decision to allow Taiwan's citizens to remit abroad up to US$5m each annually, with virtually no questions asked, the Government had to face a hoard of "financial beachcombers" who sought to persuade Taiwanese investors to put their capital into a host of investments and projects, the integrity of which could not be measured.

The Government has also had to come to terms with a paucity of reputable channels for investment overseas — and with a lack of investment sophistication among citizens that resulted from more than four decades of government-enforced financial isolation.

Far more good than bad has come from the changes, however. Demonstrations have largely tapered off, for instance, and the common wisdom holds that the activism since restrictions were lifted has reflected simply a trying out of new wings by people who had formerly been denied the right to dissent openly.

Similarly, the wheels of government continue to turn, even without the forceful hand of Mr Chiang to quash bickering and make the snap decisions required to maintain order and progress in a political structure that, to a significant extent, continues to reflect the traditional intrigues of imperial Chinese dynasties.

Shortly after Mr Chiang's passing last January, for instance, progressives within the ruling party moved quickly to have president Lee Teng-hui named acting party chairman, despite attempts at disruption by more conservative heads. The move confirmed Mr Lee as head not only of the nation but also of the party, and gave progressives the rallying point they needed to get on with the unfinished legacy of Mr Chiang.

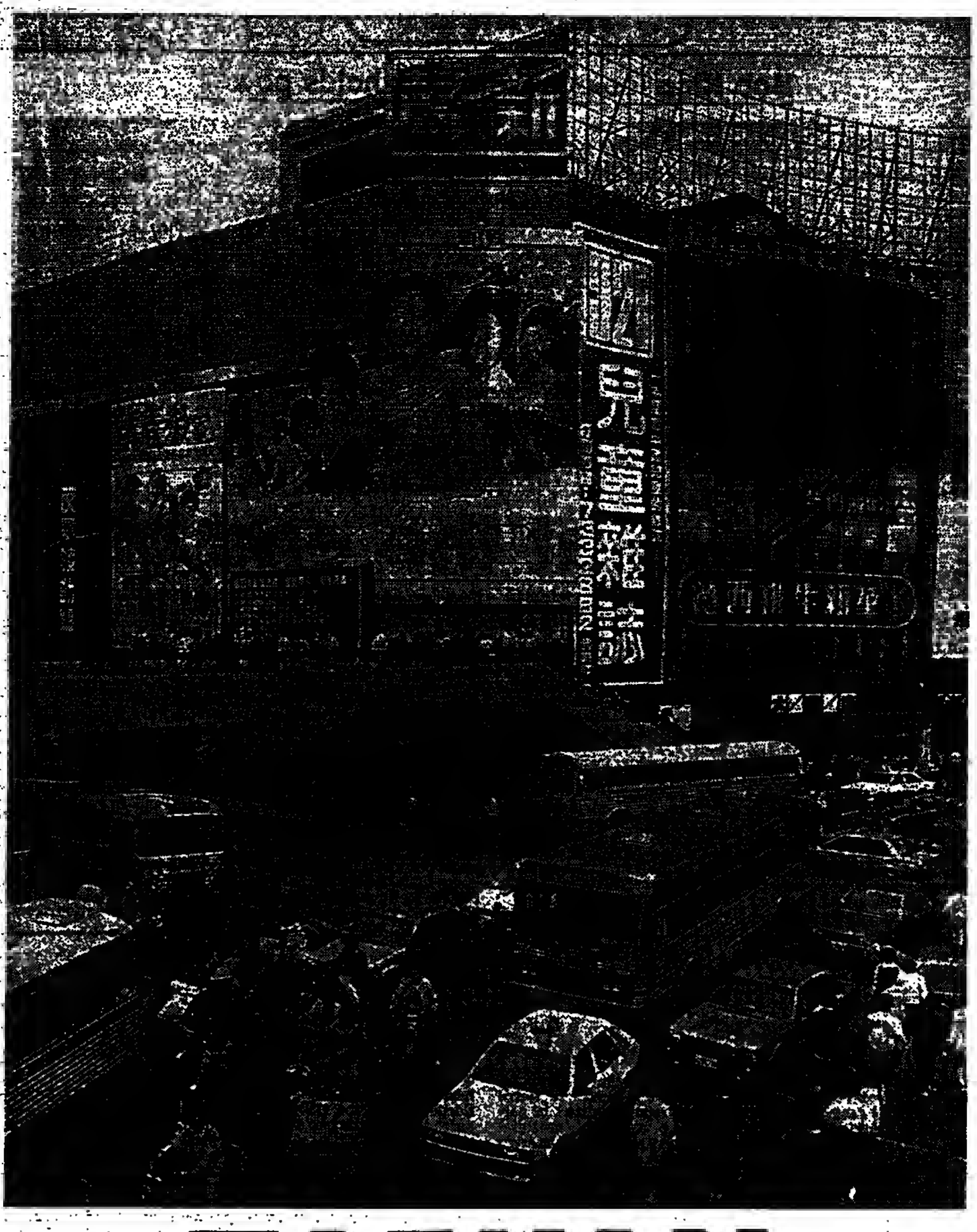
That legacy includes a continuation of across-the-board reforms: a rejuvenation of national bodies such as parliament, still dominated by ageing representatives who last stood for election more than 40 years ago; a revamping of the ruling party itself; and a fine-tuning of economic, financial, trade, and labour policies. Generally, liberalisations in these areas have speeded up, instead of slowing down, despite the demise of the strongman.

A demonstration on May 20 — ostensibly by farmers demanding subsidies, import protection and better working conditions — deteriorated into a violent confrontation with the authorities before parliament, and had conservatives demanding a return to martial law. But the centre held, and the 13th National Congress of the ruling party in mid-July brought the election of younger, more progressive representatives to the party's central committee and the appointment of more vibrant members to the powerful Standing Committee.

Mr Lee and his progressive elite quickly followed up their performance at the congress with a major cabinet re-shuffle that effectively left the old guard nowhere to go — although a number of their offspring were appointed to senior cabinet posts. While these new leaders have not been in their posts long enough to make significant policy pronouncements, events are already beginning to point to radical departures from past directions.

Expanded openings to China are the most obvious examples.

Continued on page 2



Taipei's city centre: 'the traffic is a nightmare, the air a health hazard, and a walk around the block a death-defying feat'

TAIWAN

CONTENTS

EVERYONE knows the island as Taiwan. But to the Nationalist government, it is the Republic of China. For the country's leadership, and most of its citizens alike, there can be no compromises over nomenclature, and to them it remains — as it has done for the past 39 years — China's government in exile.

To most outsiders, the claim seems improbable four decades after a Communist government swept to power in Peking, but inside the country it is a claim that is taken quite seriously. All but a handful of governments around the world now recognise Deng Xiaoping's communist leadership in Peking as the legitimate government over the People's Republic of China (PRC).

Since both governments insist that Taiwan is part of China, most outsiders are forced — albeit reluctantly — to accept Peking's claim that it also holds sovereign sway over Taiwan. The odd consequence is that diplomatic missions in Taipei operate under the most motley array of titles.

Bob King looks at who now holds power

Mr Lee Teng-huei

Mr Chen Li-an

Mr Frederick Chen

Mr Yu Kuo-hwa

Filling a vacuum at the end of a dynasty

CHINESE OF whatever regional stripe have traditionally looked to the man, rather than the office, in determining which way political winds are blowing.

So the Chinese on Taiwan had viewed with misgivings the prospects for political stability, as the health of former president Chiang Ching-kuo, who died in January, deteriorated over recent years.

The Chinese on the mainland also viewed the approaching end of the "Chiang dynasty" with concern: if former president Chiang Kai-shek had been their last chance for a speedy unification of Taiwan with China, then Chiang Ching-kuo, as the generalissimo's son and political heir, was certainly their *last* last-chance, reasoning went.

The fears of both mainland Chinese and Taiwan residents were exaggerated, it seems. Within days of the younger Mr Chiang's death, the people of Taiwan had rallied behind the Taiwan-born former vice president, Mr Lee Teng-huei; and the powerful central standing committee of the ruling Nationalist party responded by naming Mr Lee acting chairman. Programmes of reform, which had been set in motion by Mr Chiang, accelerated at the same time, despite last-ditch efforts by ageing conservatives who sought to put back the clock.

But is Mr Lee really in charge? Or does an interim group of power-brokers really call the tunes, making use of Mr Lee as an attractive spokesman but leaving him without serious power?

Certainly, there *are* men behind the president – for example, politicians such as the party secretary, Mr Lee Huan, who returned from political obscurity at the behest of the former president and who most agree is instrumental in both implementing Mr Chiang's political testament and in forging new reforms.

It was the party secretary, for instance, who pushed for the appointment of president Lee as acting party chairman over the determined resistance of ageing hardliners and groups with vested interests. And most agree that the secretary *maintains at least a close* liaison with the new president – if he does not actually make many of the decisions himself.

But other events have strengthened the president's hand. His choice of a new cabinet in late July included many capable progeny of the mainland Nationalist "old guard", such as Mr Chen Li-an, now economics minister, and Mr Frederick Chen, who now heads the economic planning and development board after five years as Taiwan's *de facto* ambassador to the US.

The prominent inclusion of these "second-generation mainlanders" in the new cabinet should both mollify the feelings of an old guard grown *increasingly* concerned over the "Taiwanisation" of power, and emphasise to the leadership in Peking that Taiwan maintains a powerful mainland voice in government affairs.

On the other hand, the increasingly strong presence of native-born Taiwanese in the *administration – not least* that of the president himself – enhances the legitimacy of Nationalist rule on Taiwan.

"With a native-born Taiwanese as president, the Taiwanese have little doubt as to the KMT's legitimacy," observes Mr Milton Yeh, a political scientist at the Institute of International Relations. This contrasts with the KMT's earlier image of interlopers from the mainland who could not hope to represent the concerns of the vast majority of Taiwan-born residents.

Given this scenario and these concerns, it seems clear that the president, with the huge amount of support he has garnered from both the intelli*gentsia and the dominant mid*dle class, will be re-elected in 1990, and that both he and his policies will be strengthened as a result.

At the same time, though, the influence of hardliners is on the wane. A clear indicator of this is the isolation from major policy-making of premier Yu Kuo-hwa, who, though he has planned and presided over much of Taiwan's recent economic success, is considered too conservative and is clearly too unpopular to continue much longer in his post.

In short, the Nationalist government is clearly in Taiwan for the long term, with other parties incapable of offering much opposition at present. The future is likely to bring much more integration of the capabilities of both Taiwanese and mainlander politicos, which will increase Taiwan's profile as a political entity in its own right.

POLITICAL REFORM

Government chooses to walk a tightrope

WHAT DOES one make of an upstart island of 20m souls in the middle of the China Sea that coincidentally happens to claim sovereignty over China's 1.1bn?

Not much – at least until recently, when Taiwan's economic might and its determination to reform its autocratic government from within began to make headlines around the world.

Now, respected political observers are beginning to concede what formally would have been unthinkable: it is possible for an inward-looking, autocratic tiger to change his stripes.

That is the message that Taiwan has been increasingly signalling to the world. And reform is, seasoned observers agree, just about the only way the Nationalist government on Taiwan can *maintain its* legitimacy at home while enhancing its international profile in the face of determined opposition from Peking – which insists that the fate of Taiwan is its own "internal affair".

The world has long dismissed as ludicrous Taiwan's claim of being "the bastion of democracy" against the Communist menace – especially given the Nationalist government's long record of being anything but democratic, both in China before the civil war and on Taiwan after its retreat to the island in 1949.

But Taipei's increasing diplomatic isolation as one nation after another has courted Peking or simply cut relations outright, plus increasing agitation at home for reforms and the emergence of a younger, more pragmatic élite, has forced a re-appraisal.

That rethinking has over the past 15 months brought the end of Taiwan's 40 years of martial law; legislation permitting the formation of new political parties; moves to retire ageing representatives in parliament and the national assembly; a key restructuring within the ruling party; and an ongoing opening to arch-enemy China that is *disguised as only* "private contacts" but which, Taipei planners hope, will lessen the tension and suspicion of decades and will allow both Taiwan and the mainland to get on with business at hand.

The implications of this process are clear: while Taiwan remains nominally committed to a united China someday, somehow, it recognises the near-impossibility of early unification, given the vast differences between the two sides of the Taiwan Straits. At the same time, the government is equally wary of independence, which would give Peking an excuse to try a military solution, to everyone's disadvantage.

The tightrope walk that the government has chosen is to disavow any intention of declaring independence; to refuse to recognise Peking's sovereignty over the island – or to have any truck with it at all officially; to strengthen democratic institutions and increase local participation in the political process; and to allow the inevitable contacts at a personal level, including indirect trade with, and investment in, the mainland in hopes of defusing tensions and perhaps even influencing China in its own political and economic development.

The success of this programme presupposes, of course, that China goes along with it – and China, preoccupied with its own development, might just be willing, as long *as Taipei shows no signs of forcing* its hand by too-obvious moves towards independence. Continued participation by older and second-generation mainlanders in government with their Taiwanese peers will help lessen the perception of such a shift away from the mutual goal of eventual unity, even as a more politically-aware population grows less interested in solving old arguments between Nationalists and Communists.

Simply put, that spells two distinct political entities for the near future – both professing at least nominal adherence to eventual union.

Bob King

A year of upheaval and radical reform

Continued from page 1

When Mr Chiang left the scene last January, for instance, the government had only months before begun to permit visits to the mainland by Taiwan residents – and only those who could show that they had close relatives in China were able to qualify for permission. China still remained the arch-enemy – *at* least, in official terms – and such things as trade with, and investment in, the mainland remained serious criminal offences.

Now, though, the Government has relaxed *significantly*. Almost anyone who wants to can travel to China, and the Government is considering dropping entirely the "close relatives" requirement. Reporting from the mainland by Taiwan newspapers has become routine. Taipei has also made it much easier for companies to trade indirectly with China, and at the same time has published a list of dozens of items which may now be legally imported from the mainland.

It has also given a tacit nod to the already-common practice of investment by Taiwan traders in mainland facilities, whose far-lower labour costs may allow many sectors of Taiwan's industry to remain *competitive for a few more* years. In fact, the Government may have indirectly promoted such investments, which are normally carried out through nominal partners in such entrepôts as Hong Kong, by lifting restrictions on branch offices overseas.

At home, the economy has continued the stellar performance of the past few years. Planners confidently predict real growth of more than seven per cent for 1988. Exports, the main engine of the economy, had by the end of August increased by 16.7 per cent to US$40.1bn.

Still, the Government remained worried over the strength of the Taiwan dollar against the US currency. The New Taiwan dollar has risen more than 35 per cent against the US dollar over the past two years, and in local currency terms, exports rose by a scant 1.2 per cent during the first eight months of this year.

In fact, despite the ongoing economic successes, Taiwan has been careful to continue modifying its economic system to suit varying world conditions. It is, for instance, shifting its export focus away from the US – witness the drop in US-bound exports from the 48 per cent of total exports in 1986, to 44.2 per cent last year, and further to 39.1 per cent during the first eight months of this year.

At the same time, the value of exports to Europe will climb by more than 25 per cent this year the Foreign Trade Board predicts. The country is also seeking to lessen its dependence on Japan for capital goods, and has recently placed Europe on an equal footing with the US as a primary source of such goods.

At home, Taiwan presents an extremely mixed picture. Signs of affluence are everywhere - Mercedes-Benz cars are now so common on Taipei's streets that the brand has lost much of its value as a status-symbol - but the streets remain so clogged by these prestige imports, as well as by a host of locally-made Fords and Yue Loongs, that traffic is a nightmare, the air a *health hazard*, and a walk around the block a death-defying feat.

Further consequences of too much success are that there is simply so much money around, chasing too few viable outlets. Property costs, along with the value of stocks, have rocketed. Newly-weds face a daunting challenge as they seek to buy shoddily finished apartments at astronomic prices. Some have asked whether the price of success, at least in the short term, may not be too high – and whether Taiwan may be facing human costs far in excess of the value of annual growth-rate statistics.

These lessons are coming home. The question, apart from concerns over Taiwan's international identity, is whether the island's government and people are prepared to move fast and far enough to *handle the fall-out of success*.

ECONOMIC REFORM

Series of peaceful bangs

"TAIWAN IS about to have its own Big Bang," says a foreign banker, referring to plans for licensing of up to 100 new stockbrokers and some integrated securities houses. But it is not just the securities industry. The whole of the country's economy is in the midst of a peaceful revolution, or a series of Big Bangs, for the economy, finance and industry.

The buzz words are liberalisation and internationalisation. "We cannot resist the trend across the world for these policies," says Dr Kuo-Shu Liang, chairman of the government owned Chang Hwa Commercial Bank. "Everyone else is doing it and at our stage of economic development we need to be opening up anyway — and there is also the US pressure on us for such policies."

But the reforms and allied economic boom can unleash problems, as recent demonstrations by investors over a proposed stock exchange profits tax have shown. "The liberalisation tide is being pulled by the market and by events following the freeing last year of foreign exchange controls," says Mr Edward Chien, executive vice president of the Hua Nan Commercial Bank, also government owned.

"The tide is not being pushed by the government, which is worried about how to design and operate laws at a time when everything is new and there is no experience. The problem for the future is the lack of government experience.

"Structural regulations should go, like those for example controlling interest rates or how many bank branches we can open," adds Dr Liang. "But we need new precautionary regulations which we do not have, for example to strengthen auditing and hit at the growing illegal underground finance companies."

Such issues and concerns strengthen the arms of people in the government and ruling KMT party who want to slow down the reforms, for either bureaucratic, philosophical or other reasons. The conservatives have considerable delaying powers, but they are gradually losing the argument.

Policies started to change about four years ago and gained almost unstoppable momentum when martial law was lifted in July last year. They cover environmental protection and new labour freedoms as well as the internationalisation and liberalisation themes, linked with which are new open financial markets to cope with the country's booming wealth.

New freedoms for trade unions, which directly followed the end of martial law, are causing some concern because there have been major public sector labour protests. Private sector industrialists are anxious about the future, and the government is talking about redrafting labour laws to make them more effective.

The internationalisation and liberalisation reforms fall into five main areas:

● **Trade and industry** Import controls were lifted last year on 960 items, freeing most goods, and tariff barriers were reduced on 1,200 items, with a further 3,000 planned this year.

Requirements for foreign investors to meet export and local production targets have been reduced. Most production controls have been lifted and government-owned businesses in various sectors may gradually be privatised.

● **Banking** A new banking law, which is now in its parliamentary stages and may be implemented at the end of this year. This would take away all controls on interest rates, allowing banks to fix their own rates without ceiling and floor levels imposed in an earlier stage of reforms.

Restriction on branch openings would be lifted. The new law might also attempt to control underground finance companies — this might be, perhaps, by defining a deposit taker. Credit cards are being introduced for nationals.

Banks are gradually being privatised. The government plans to cut holdings in three — the Chang Hwa Commercial, Hua Nan Commercial, and First Commercial — from between 55 and 75 per cent to 51 per cent. The holdings might later drop below 51 per cent, with a maximum of perhaps 15 per cent being set for any private sector individual's or family's holding.

Foreign banks have been allowed to open a second branch after five years in the country. Under the new law they will be allowed into long term lending and deposits, and maybe eventually consumer banking.

● **Insurance** In response to US trade pressure, four US insurance companies — two life and two property — are being allowed to open up each year in what is an otherwise domestic area.

● **Securities** A new law last February liberalised broking, securities and other arrangements.

● **Gold and foreign exchange** In November 1986 a ban on individuals importing gold was lifted and exports may be allowed soon without government approval. Some bankers haveestimated that in the first six months of this year 220 tonnes of gold were imported legally — half of it by the government — and that another 100 tonnes may have been smuggled in. "Gold is a safe and anonymous investment," says one banker.

From last July individuals have been allowed to take up to US$5m a year out of the country — but the flow has been relatively slow because of the strengthening Taiwan dollar and stock market speculation.

John Elliott

John Elliott on the problems of wealth

On a more stable course

THE MOST pressing problem facing the Taiwan economy is how to cope with its abundance of riches. Foreign exchange reserves last year of US$76.8bn and a trade surplus of US$19.2bn have provided wealth that has fuelled a volatile stock market (see page 4), and rocketing property prices.

KEY ECONOMIC STATISTICS

	1985	1986	1987
GNP growth %	5.1	11.6	11.2
Consumer price inflation %	-0.2	0.7	0.52
Exports (US$bn)	30.7	39.8	53.5
Imports (US$bn)	20.1	24.2	34.5
Trade surplus (US$bn)	10.6	15.6	19.2
Foreign exchange reserves (US$bn)	22.5	46.3	76.8

The sudden wealth of a country awash with money is immediately evident. The roads are choked with expensive imported cars and the centre of Taipei is sprouting glossy modern office skyscrapers. Imported beer, brandy and other commodities are freely available. Bankers talk of Taiwanese people bringing large quantities of gold into the country and of at least 10,000 people out of the 20m population having perhaps US$2m or US$3m to invest.

But despite problems created by such wealth — for example recent upheavals on the stock market — most trends are satisfactory and the economy is being opened up alongside a radical restructuring of trade and industry which should set the country on a more stable growth path into the 1990s.

"We are all learning," says Mr Chien-Shien Wang, Vice Minister for Economic Affairs, referring to the need to find ways of meeting demands for better wages and environmental protection, at the same time as investor confidence needs boosting to help the switch from labour-intensive to higher-technology industry.

The main economic developments this year have been stabilisation both of economic growth, down from over 11 per cent in the past two years to probably just over 7 per cent this year, and of the trade surplus, down this year probably to around US$10bn from US$19.20 last year. Ministers expect the trade surplus to stabilise at around US$7bn in the next couple of years.

For the first time since 1980, imports last year grew significantly faster than exports — about 43 per cent compared with 34 per cent — and the gap this year is expected to expand to about 35 per cent growth in imports compared with 15 per cent in exports.

These developments show that the country is beginning to respond to three challenges which require a strengthening of domestic demand and industrial restructuring: the sudden rise of the Taiwan dollar which has increased in value by 40 per cent during the past two years from NT$40 to the US$, levelling off around NT$28-29; a need to reduce the country's dependence on the US market to take its exports; and domestic labour costs rising at 10 per cent or more a year, outstripping productivity improvements in older industries.

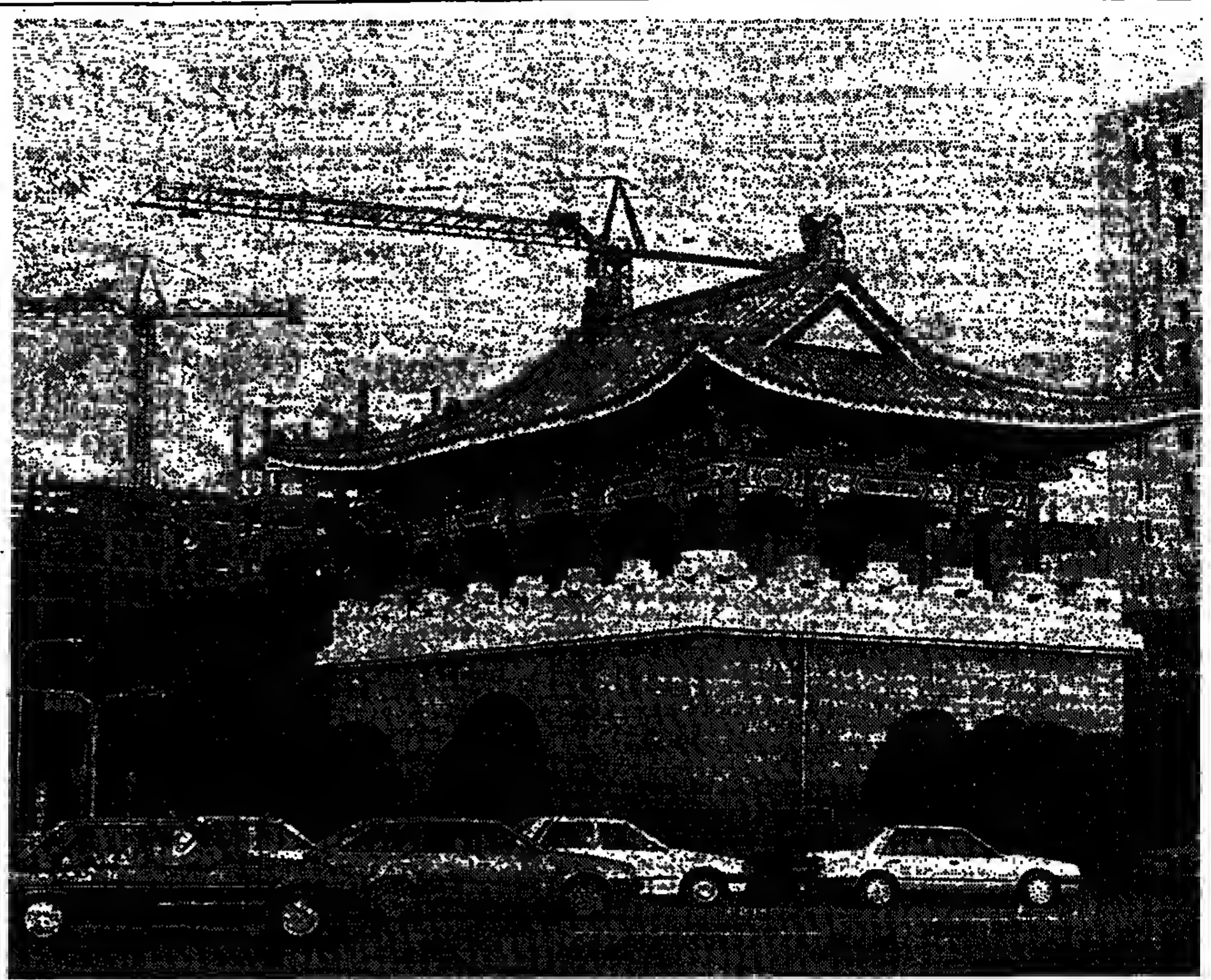
The government has been reducing import tariffs and is trying to stimulate domestic demand further by spending NT$390bn (US$10.2bn) this year on major public sector infrastructure projects budgeted to cost a total of NT$800bn. The aim is to create sufficient domestic demand to stabilise economic growth at not less than 6.5-7.5 per cent GNP. The price of this policy will be an budgetary deficit of about 25 per cent this financial year.

The reduction in tariffs is also helping to curb inflation which is beginning to worry the government because of a continuing rapid increase in money supply, rising public sector labour costs following a freeing of trade union activity last year, and substantial increases in train and bus fares. The consumer price index is expected to rise by about 1 per cent this year and maybe 3 per cent next year, compared with 0.52 per cent last year.

Money supply rose by 27.03 per cent, seasonally adjusted, in the 12 months to the end of August, to NT$1,734bn, measured on the basis of M-1B which includes cash in circulation plus deposits in current and savings accounts. Last year it rose by 40 per cent.

A tough line is also being taken on uneconomic traditional industries at a time of low-skilled labour shortages. "Labour intensive factories must go bankrupt if they cannot pay, or they can go abroad," says Vice Minister Wang.

So far the government's policies are working without serious problems. But the challenges of switching from an export led economy and stimulating domestic demand, while at the same time meeting the growing demands of a nation tasting the freedoms of wealth and democracy for the first time, has only just begun.



The centre of Taipei is sprouting glossy modern office buildings

TRADE

Benefits in the long run

LIKE ALMOST every other facet of life on Taiwan, the island's trade policies and directions are in transition — a change that is inevitable as Taiwan joins the ranks of developed trading nations.

Pressure for that change has come from a variety of quarters. The US, which for a number of years was Taiwan's largest market, taking about half of its exports each year, has grown increasingly reluctant to see its markets flooded with relatively-inexpensive goods from Asian manufacturers — especially goods that compete directly with American products.

Then, too, Taiwanese goods are no longer as cheap as they once were: rising expectations, labour costs, and the value of the Taiwan dollar, which has risen 35 per cent against the US currency over the past two years, have blunted the competitive edge of the island's products.

Finally, there has been pressure on Taiwan to remove its barriers to imports and to diversify its sources of supply, particularly of capital goods, which the island requires in ever-increasing amounts to meet its development demands.

Many of the changes called for reflect government policy and will prove a boon to the island in the long run. The over-dependence on the US as an export market, for instance, made traders especially vulnerable to shifts in the American economy, as well as fair game for protectionist congressmen. Government planners have for years, in fact, urged Taiwan's businessmen to diversify their markets — a plea that went largely unheard as exporters continued to concentrate on the devil they knew.

Government projections also called for the standard of living — and therefore salaries — to rise here, which meant that the cost of labour, on which Taiwan has relied for decades to produce those inexpensive items, went up accordingly.

And, in diplomatic terms, Taiwan has hoped to get around its diplomatic isolation brought about by its ongoing tussle with Peking over who is the real government of all China by forging trade, business, and investment links with nations that still shun the island.

Taiwan's new trade policies encompass all of these problems and objectives. According to Mr P.K. Chiang, the new director of the foreign trade board, government "action programmes" designed further to open markets in Europe, Japan, and other areas, have already achieved significant results — while exports to the US have dropped accordingly.

Similarly, purchases from Europe are up, and those countries will in future be considered on an equal basis with the US when tenders are let for major government contracts.

Mr Chiang said export-promotion programmes that began in 1986 will bring exports to Europe to US$10bn this year from US$8bn in 1987, and from US$7bn to US$9bn to Japan. An annual increase in Taiwan's exports accounts for some of this rise. But statistics also show that in percentage terms, Western Europe during the first eight months purchased 15.4 per cent of Taiwan's exports, an increase of 35 per cent, and Japan took 14.4 per cent, an increase of 38.5 per cent.

The US share has fallen correspondingly, from 47.7 per cent in 1986 to 39.1 per cent from January-August this year. Also, Taiwan's surplus with the US fell from US$10.9bn to US$6.4bn during the first eight months, leading planners to predict that the total for 1988 will be 40 per cent less than last year. That, as much as lowered tariffs and a doubling of imports, should help ease protectionist sentiment against Taiwan in the US.

Its attempts to ease the ongoing deficit with Japan have met with less success, however; despite a rapid increase in exports, the smaller base compared with imports, which also rose, means that the deficit in trade with Japan will climb from $4.8bn in 1987 to $5.3bn, Mr Chiang said.

Diversification continues on a broad front. Taiwan firms, for instance, are seeking alternative manufacturing bases in the region, including arch-rival China; the government and traders are sounding out new trading partners, including Vietnam and the Eastern bloc, now that curbs on contacts with these nations have been eased. And in Europe and Japan, government agencies are now plotting an expanded trade-promotion campaign that includes stepped-up purchasing from Europe — including three Airbuses and a variety of capital goods — and new trade offices in Hamburg, Rotterdam, and Düsseldorf.

Bob King

John Elliott on financial services

Slow internationalisation

TAIPEI HAS become one of the prime targets for bankers and finance houses from Europe, Japan and the US who want a *slice of the business which* they believe must be available in this cash-rich country.

But internationalisation of the stock market and financial services has been slow, although there are about to be some *banking changes.* New stockbrokers are also being licensed, some with foreign links. The latest changes, however, will provide neither direct international access to the stock market, nor 100 per cent *foreign-owned brokerages,* especially in an over-heated economy.

Reforms started in 1983, when the first of four mutual funds, the Taiwan (ROC) Fund, was floated by the Interna*tional* Investment Trust (IIT) to bring foreign money into the country. IIT is 49 per cent owned by a foreign consortium that includes Credit Suisse First Boston, Jardine Fleming, Vickers de Costa and Citicorp; and 51 *per cent* by local banks.

It started with US$41m and went op to US$81m in 1986, when three more similarly structured funds were launched – the Formosa, run by Hwang Hwa; the Taiwan, *run by* China Securities Investment Trust; and the Taipei, run by National Investment Trust.

These four have heen allowed to launch two local funds each so that, for example, the IIT now has US$750m under its management in the Taiwan stockmarket. They also expect to be allowed, by the end of the year, to launch one US$40m fund each to take Taiwan money out of the country.

The lifting of controls last year oo the outflow of foreign exchange, with a person being able to take US$5m out a year, then forced the Government to respond to requests from foreign investment houses to play a larger role.

As a result, firms like Jardine Fleming, Fidelity, Citicorp, Daiwa of Japan, and Société Générale are now allowed to do advisory and promotional work under a *Security Investment Consultant* Licence, of which about 30 have been issued, with 10 applications pending. But they are not allowed to handle any investment themselves, and can only advise on foreign *funds they have registered in* Taiwan.

So they concentrate on promoting their own funds, and handle investments through their Hong Kong offices. A legal loophole also allows them to advertise their registered funds in local Taiwan bank branches, which has considerably boosted their potential business.

Other concerns, such as Mer*rill Lynch and Shearsons,* have found different indirect ways of providing investment advice through a general consulting licence. About 34 major foreign banks, almost all with only one branch, also provide a limited range of services, which they hope will be extended later this year to include long-term deposits and trust business.

A *gradual rewriting* of the Securities Exchange Law over the past four years is leading to a flood of new stockbrokers being licensed, in two categories – an Integrated Securities House Licence, which covers four *areas of* broking, underwriting, dealing and margin lending; or single licences for broking, underwriting or dealing.

There have been about 80 applications for a single broking licence, of which 34 have been approved, some linked with Hong Kong and Singapore overseas Chinese. Nine integrated licences include three with a major foreign base: Taiwan International Securities, headed by Jardine Fleming; Yung Hsin, which is 40 per cent owned by Bankers Trust; and a third which is from Japan.

The foreign holding can amount to a maximum 49 per cent, with no single stake of more than 10 per cent. Some foreign finance houses, however, have not applied, because an integrated house must be capitalised at NT$2bn, which they do not believe is justified by Taiwan's potential business.

INDUSTRY

Aiming to be a top rank high technology producer

TAIWAN'S PLANNERS envisage building a model science city of 1.2m people at *Hsinchu, about an hour's drive* outside the capital of Taipei. High technology businesses would produce a turnover of US$6bn to US$7bn a year by 1996 – one year before China re-establishes its sovereignty over Hong Kong – on the site of the highly successful eight-year-old Hsinchu science-based *Industrial* Park.

The date is not accidental. It illustrates Taiwan's determination to slot itself into the top ranks of high technology producing countries, and to cash in on whatever problems Hong Kong *may face by 1997.*

But about 95 per cent of Taiwan's 80,000 companies are small or medium-sized, which slows down efficiency and development. "Chinese people like to be their own boss," says Mr Irving Ho, an ex-IBM executive who now runs the government sponsored Institute for *Information Industry. "That is* our weakness because it means that most of our companies are too small for large volume work like that done in South Korea with its five giants. But we can react much faster into new techniques – that is our strength."

In the past few years Taiwan *has moved rapidly* to try to lose its international reputation for poor quality goods – with some, but far from total, success. Other factors behind the country's extensive industrial restructuring include the soaring valne of the Taiwan dollar, rising costs of increasingly scarce labour and trade pressure from the US.

Older industries like shoes, *textiles and toys are moving* ont of labour-intensive operations – or are locating them abroad in cheap-labour countries such as Thailand, Malaysia and mainland China. They and other higher technological industries are trying to move upmarket – they are choosing niches which capital*ise on Taiwan's strengths* of knowledge-intensive industries and its hardworking productive people, without challenging head-on rival countries such as South Korea and Singapore.

Personal computers are the country's main strength at present where some foreign businessmen say Taiwan is outstripping Japan in terms of overall technology and production quality, though not manufacturing efficiency, providing there is strict managerial control.

Behind this is an active but not overtly interventionist government. "We know we want an industrial policy to set guidelines and provide incentives because we need to have specific aims," says Dr George Yang, director general of the government's industrial development bureau.

"But it is not dramatic government influence, as it is in *Japan. It is* more *liberal.* Here we have principles and cultural characteristics of all the people being on an equal basis so we cannot organise two or three companies to produce a snper computer," says Dr Yang. "Everyone can be an entrepreneur here."

Dr Yang's list of industries includes aviation as well as diversifying textiles away from garments, developing speciality petrochemicals, and the more obvious areas of information technology, biotechnology and automation.

Promotional institutions develop these themes. The Indnstrial Technology Research Institute has seven laboratories concentrating on commercial applications for areas such as electronics, including semicondnctors, super mini-computers and opti*cal discs, and mechanical* engineering areas like computer-aided automation and precision engineering.

The government-run Hsinchu science park houses 102 private sector companies with 15,000 employees. Turnover last year was US$850m and is expected to approach $1.5bn this year. The park has encouraged high technology industries, notably electronics plus *some telecommunications and* biotechnology. More significantly, it has attracted overseas Chinese back from the US. They make up 30-40 per cent of its businesses, along with 59-60 *per cent from local people* and about 20 per cent from multinationals snch as Philips, Wang, IBM and AT&T.

Electronics and electrical goods have replaced textiles as Taiwan's biggest exporter. They include information technology where exports have mushroomed 370 times from US$10m in 1980 to $3.8bn last year. Mr Ho forecasts this will grow in the the future by 30 per cent annually and will be Taiwan's biggest export earner, without excluding general electronics, by 1995.

John Elliott

Personal computers are the country's main strength at present. Some foreign businessmen say Taiwan is outstripping Japan in technology and production quality.

Shocks on the stock market

Paradise lost

THE TAIWAN stock market, a gambler's paradise for the first 38 weeks of this year, has over the past two weeks turned into a gambler's nightmare.

Since *September 24, share* prices have plummetted by about 20 per cent, with small investors rushing to dump their stock but finding few buyers. What was the world's busiest stock market after New York and Tokyo, in terms of turnover, has been rednced to the ranks of bourses such as Norway and New Zealand, with volumes shrinking by 99 per cent.

The reason *for the sharp* about-face lies in Government moves to cool the overheated market, which between January 1 this year and September 24 soared by over 250 per cent. Three Saturdays ago Ms Shir*ley Kno, the Finance Minister,* slapped a capital gains tax on equity transactions, to take effect from the start of next year.

When investors returned to the market the following Thursday, after a three-day national holiday, pandemonium broke loose. Share prices have been *falling sharply* ever since, in spite of a revision to the tax changes by the Government.

The new tax, which was *last* in force more than 10 years ago, will apply to annual share purchases worth more than T$10m ($207,000). The threshold was originally pegged at T$3m, but loud and angry protests from investors, and the widespread selling of stock, forced concessions from Ms Kuo after just nine days.

The Government has also announced plans to reduce the *transaction tax from* next year from 0.3 per cent to 0.15 per cent for those investors who hold their stock for at least a year.

The Government's decision to tax sizeable purchases was forced upon *it by the dramatic* jump in share prices this year, which turned the exchange into a virtual casino and hurtled it into the international investment limelight. Many investors bought today and sold tomorrow, with the average turnover time for stock being about four days. People who *held shares for more than* two weeks talked of "long-term investment."

In view of the government motives behind the tax move, further significant concessions are highly unlikely, in spite of the risk that share prices could continue to plummet.

Mr Chris Ellyatt, analyst at James Capel, the investment brokers, says: "There was speculation that the market would get to the level where it would crash for other reasons and I think they (the Government) would rather induce this themselves than *let it* happen on its own and damage Taiwan's international image."

The big losers, if Taipei keeps falling, will be the small domestic investors who make up *an estimated* 85 per cent of total investment in the market. They appear to be second-guessing one another, opting to sell, rather than use the two and a half months left before the tax changes take effect as an *opportunity* to buy. The fact that large institutions have also been heavy sellers of late has further worried the small players. Reducing large institutional portfolios could be a prolonged affair.

Foreign investors, who can invest in the market only through four mutual funds, are less exposed to the current problems. They have been reducing their holdings over the past two or three months – walking away with profits of 200-300 per cent – and it is less likely that they will have problems redeeming their holdings than will domestic buyers, says Mr Ellyatt.

This year began with Taiwan's weighted index, which covers 119 of the 144 listed companies, at 2,340 points. *By September* 24 it had risen almost uninterrupted to an all-time high of 8,789.78, overtaking Hong Kong at the start of the summer in terms of market capitalisation.

Turnover was boosted to daily *highs of* T$58bn by the summer, from a daily average of T$17.6bn over the first five months, and Taiwan joined the big boys as one of the busiest bourses in the world.

Over the past week and a half turnover has ranged between a paltry T$152m and T$10bn, apart from the day on which the tax *revisions* were announced, when T$37bn worth of shares changed hands. Most stocks have been falling by the 3 per limit allowedunder the exchange's rules, with buyers almost non-existent.

What does the future *hold?* Ms Joyce Li, of Citicorp Scrimgeour Vickers, thinks the 7,000-mark could prove to be a strong technical support level as in the past. But in the present climate anything could happen, she said.

"Small investors will the ones to make the market rise again. You might see them coming back to buy towards the end of the year but at the moment they're worried by the fact that big investors are selling heavily, so whatever they *do buy is losing* value all the time."

Mr Robert Simpson, at James Capel, thinks the market will probably drop to about 5,000 before stabilising, with a flurry of buying likely before the end of the year to beat the new year tax changes. The drop might seem large from the dizzy height of 8,790, but the market would still be double its value at the start of the year.

Hilary de Boerr

Acer sets bold growth targets

ACER INCORPORATED, Taiwan's biggest computer manufacturer with a forecast turnover of US$550m this year, claims to be among the top 10 suppliers of personal computers in the US and Europe. By 1990 it wants to be in the top five worldwide and, with a 40 per cent annual growth target, is aiming for turnover of US$3bn by 1995.

"I don't want to become the *biggest* in the world, but to have the best management performance, the best growth rate and rate of productivity improvement, and the best return on equity," says Mr Stan Shih, 44-year-old *chairman* of Acer.

Since he founded the company in the Hsinchu Science Park in 1976 with US$25,000 capital, Mr Shih has overcome many of Taiwan's industrial traditions of small unorganised businesses and poor quality. But he says it has been "very difficult" to overcome the country's image. Even the smallest company in Silicon Valley is better known than the biggest in Taiwan.

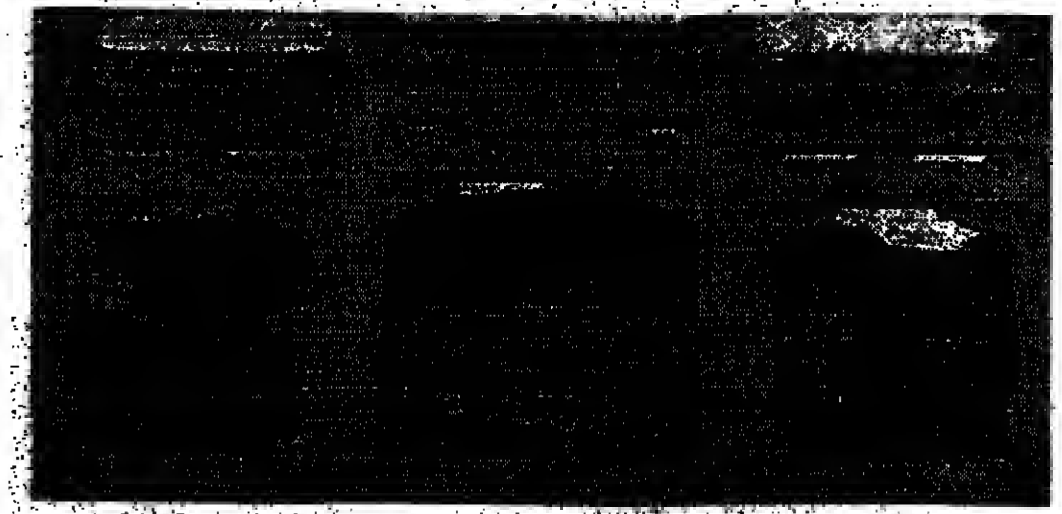
"Our strategy is to make sure we are upmarket of South Korea because it is bigger. But *the main thing* is that our management concept is different from the rest of Taiwan's small family-owned companies. We are not family-owned but rely on teamwork. The desire in our country for entrepreneurship is met by the employees having their own piece of the company."

Mr Shih and the staff own 70 per cent of Acer, and he was estimating that more than 100 employees would become US dollar millionaires, and over 1,000 Taiwanese dollar millionaires, when 10 per cent of the company's stock is offered on Taipei stock exchange next month.

J.E.

Bob King looks at the island's identity

A divided status



More than 300 years of history separate Taiwan from the mainland. Above, the National Museum

CHINESE LEADERS in Peking are fond of pointing to Hong Kong when discussing Taiwan's eventual "return to the embrace of the motherland". They stress that Taiwan will, like Hong Kong, enjoy a high degree of autonomy and will keep its armed forces and basic social and economic structure.

Recently, China has upped the ante somewhat by offering, through an intermediary, to begin talks on a coalition government with the Nationalists on Taiwan. In the main, though, the Chinese have been pursuing the "Taiwan issue" as if the island were simply an offshore version of Hong Kong that will follow a reunification pattern laid down by Peking. But in the process, Peking's leaders miss the obvious — and the essential. For Taiwan is not Hong Kong, any more than it is mainland China.

Only a thin border separates Hong Kong from China's Guangdong Province, and should Hong Kong act contrary to Chinese wishes, mainland troops could occupy it without much fuss. In addition, Hong Kong is dependent on China for much of its power and water needs, not to mention vegetables, poultry, fish and pork. Turn off the water and Hong Kong would not last a week.

Taiwan, though, does not depend on the mainland for anything, and it is questionable how much success Chinese troops would have in a military foray — assuming they were willing and able to mount one. More than 100 miles of water — and 350 years of history — separate Taiwan from the mainland.

Peking can perhaps be forgiven for glossing over these physical differences in its attempt to persuade the world that Taiwan is in fact a part of the People's Republic — if not now, then later. But communist officials ignore history at their peril, for Taiwan has over the past three-and-a-half centuries followed a development path that is different from, if parallel to, that of the mainland.

Although Taiwan's relationship with China dates back to the Sung Dynasty during the 12th century, the island was populated in the early 17th century mostly by Malayo-Polynesian aborigines who may have migrated from the Philippines and other areas.

Later in that century, the first immigrants from China's Fujian Province arrived. They displaced — and intermarried with — the plains-dwelling aboriginal tribes before they were in turn followed by a wave of Hakka immigrants from Guangdong Province.

And so it went until the late 19th century: new immigrants pushed by high population density in China displaced, and intermarried with, existing residents, until the Japanese, who had won Taiwan in the Sino-Japanese War, arrived in 1895.

The latest wave of immigrants arrived after World War II: remnants of Chiang Kai-shek's defeated armies and demoralised Nationalist government. Unlike the earlier migrations, though, the post-war arrivals included people from all over mainland China.

From the early 17th century, forces other than Chinese were working on Taiwan. The Portuguese, the Dutch and even the British made sporadic and short-lived attempts at colonisation. China exercised only nominal sovereignty, partly because of the logistics presented by the Taiwan Straits, and partly because Chinese emperors were not interested in stretching limited resources for marginal returns.

Indeed, some advocates of independence for Taiwan have made a case out of traditional Chinese indifference to the island. But, politics aside, it is clear that Taiwan has acted apart from events on the mainland; indeed, many native-born proudly stress that their ancestors came to Taiwan to escape the poverty and the intrigues that the Imperial system engendered.

History repeats itself, it seems. The Nationalists fled China to escape the communists much as the Ming-dynasty partisan Koxinga came to Taiwan in 1661 to foster rebellion against the newly-risen Ching dynasty. And the tensions that have arisen between the new arrivals and the longer-term residents are rapidly evaporating with intermarriage and general assimilation.

In today's new-found atmosphere of free debate in parliament and in the streets, some critics have been urging the government to clear up "provincial" differences. The government officially denies that such differences exist, and indeed Taiwan's current preoccupation — making money — probably leaves little time for "clan" rivalries.

The materialistic bias, ordained decades ago by planners who decreed that Taiwan would become rich — no matter what the social cost — so as to present a suitable contrast to China's poverty, has also obscured the spiritual, moral and ethical side, however. The result? "The people are empty," several scholars and officials say.

Empty or not, the people of Taiwan as a whole live better than any ethnic Chinese at any time in China's tortured, 5,000-year history. The native-born dominate business, industry and the professions. They are getting increased representation in governmental decision-making bodies that have long been dominated by recent arrivals. And recent reforms by the ruling Nationalists make it clear that, barring intervention by China, Taiwan will in future be run only by those who consider Taiwan their home.

What these new governors will decide still is not clear. The people of Taiwan have as caveats, for instance, China's rather high-handed approach to the question of self-rule for Hong Kong, which it will regain in 1997, as well as its response to recent events in Tibet — another "autonomous" region of China. It is clear, though, that Taiwan, with a history of relative geographic and political independence, is not inclined to sacrifice the concrete present for a vague future under Peking's tutelage.

Much depends on Peking itself. Many Taiwanese, for example, view the government's recent decision to allow residents with families in China to return there as a blanket approval of visits for everyone — whether for tourism or business.

As Taiwanese freely travel back and forth to the mainland, they are finding that, while China has made great progress in many areas over the past four decades, it cannot match life in Taiwan. This tends to support Taiwan's divided status — at least until the Chinese authorities find ways to make China more like Taiwan.

Peking, in turn, will find that what divides Taiwan most from China is not miles of water or the policies of the ruling Nationalist Party. Instead, it is the Taiwanese people, who the Chinese leadership thought would fall so easily into their laps.

SHOE MANUFACTURE

Move to top of market

PERHAPS MORE than any other, Taiwan's footwear makers epitomise the challenges and perils that are facing a host of traditional Taiwanese industries.

For the past few years, Taiwan's shoe manufacturers ranked first worldwide in terms of the number of shoes they exported. Last year, the industry shipped almost US$3.8bn-worth, up from US$3.2bn a year before.

This led shoemakers to boast that their industry, though far behind electronics products at US$10.6bn and garments at US$4.4bn, was the largest single foreign-exchange earner.

Times have changed. The number of pairs exported during the first eight months of this year dipped sharply after a decrease of 5.7 per cent during 1987. To the US, which normally takes more than half of Taiwan's shoe exports, pairage slipped from January to August by 22.5 per cent. Similarly, exports to West Germany were off by 2.36 per cent; the Netherlands by 16.6 per cent; the UK by 17.5 per cent; Italy by 18 per cent; and France by 21 per cent.

Not surprisingly, given the sharp appreciation of the Taiwan dollar over the past two years, unit prices increased in terms of the US dollar: 25.7 per cent to the US, 29 per cent to West Germany and the Netherlands; and 36.3 per cent to the UK. But in Taiwan dollar terms, the increases were negligible, or worse.

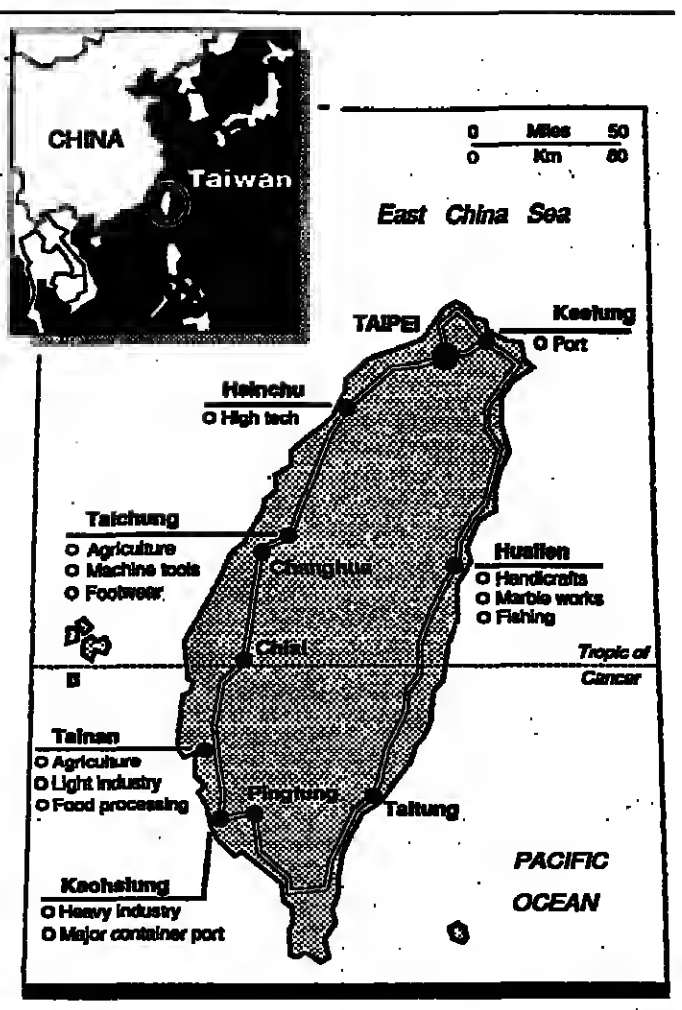
For some, the some this has brought a switch into higher-end shoes. Others with the cash and the know-how have diversified their operations, placing more emphasis on exports of shoe components to developing nations in the region and on imports and local sales of foreign-designed fashion items.

Evidence of the changes abound. Some Taiwan manufacturers are now turning out leather footwear of exceptional quality, which sells for as much as $140 a pair in overseas markets. Component and machinery makers have also done an about face: the industry now exports about 80 per cent of its production, whereas just two years ago 80 per cent went to supply Taiwan's footwear factories.

Finally, demand is booming among Taiwan's affluent citizens for foreign fashion goods — including many that are actually made in Taiwan — and high-profile ads and promotions for such brands as Travel Fox, Reebok, Nike, and Adidas daily compete for the buying public's attention.

But most of Taiwan's 1,200-odd shoe companies, beset by financial woes and limited marketing knowledge, lack those options. Many are moving their manufacturing operations to other parts of Asia where footwear industries are just starting up and costs are lower. Although destinations include Thailand and Indonesia, the most popular is China, and as many as 100 Taiwan factories may be operating there by the end of this year.

Bob King



Demand is booming among Taiwan's affluent citizens for foreign fashion goods

LEGAL COLUMN

Clerks stand accused of spoiling barristers' US links

By Raymond Hughes

IF Andrew Vollmer, a London-based member of a Washington law firm, ventures into the Inns of Court he might be well-advised to be accompanied by a minder.

His remarks at the Bar's recent annual conference put him at risk of a verbal mugging by barristers' clerks.

The burden of his address, part of a workshop on the development of international practice by the Bar, was that barristers had been up-staged by City solicitors in the development of working links with the main US law firms.

One of the barristers' weaknesses, he said, lay in their clerks. Mr Vollmer said: "One US lawyer said to me that barristers could increase their use by US lawyers by sacking their clerks and employing competent secretaries."

He listed clerks' shortcomings as including: being overly protective of their barristers; being reluctant to put through telephone calls; being unreliable about whether a barrister will have the time to do a project; and frequently overbooking barristers.

Not surprisingly the clerks have a different view. One reacted: "The last thing we want is some ruddy American lawyer ringing up and getting through to a busy QC and going on about his case."

The more measured and politic response of Mr Paul Shrubsall, vice-chairman of the barristers' clerks association, was that Mr Vollmer's comments were unfair.

Clerks who dealt with American lawyers liked doing so and went out of their way to be helpful. If Americans were finding difficulties they were using the wrong chambers, he said. And if clerks were "overly protective" of their barristers it was probably because the barristers were too busy and wanted to be protected.

As for replacing clerks with secretaries – that, said Mr Shrubsall, would be a disaster: "One of the advantages of the clerk system is you have people who are specialists in the way the Bar works, who are capable of talking to lawyers about their cases, of identifying their needs and providing the specialist barrister they require."

Mr Shrubsall continued by saying that if chambers dealt directly with US lawyers there was hostility from solicitors who thought they were being "cut out."

Mr Ronald Burley, senior clerk in one of the busier commercial chambers in The Temple, also defended the clerking system which, he said, freed busy barristers from administration and allowed them to do what they were skilled at doing.

He said pressure of work often meant there might not be time to service some of the needs of overseas lawyers.

Mr Burley also pointed out that barristers, unlike solicitors, did not have unlimited research assistants, and in any event, when they were asked for a professional opinion it was expected to be their own.

Mr Vollmer's thesis, however, was that in spite of their strengths of litigation experience and independence, barristers' competitive weaknesses, as perceived by US lawyers, made them less attractive than City solicitors to US lawyers seeking professional guidance and assistance in the UK. And the idiosyncracies of clerks was only one of their weaknesses.

Barristers must be more 'up-front' about what they expect to be paid

One of the main problems, he said, was that barristers "lack substantive expertise and experience in the areas of greatest importance to the US lawyers who are most active in Europe."

Those areas were international finance, including international loans, securities and Eurobonds, and international transactions such as mergers and acquisitions.

Other problem areas were the rules on direct access by foreign lawyers; lack of knowledge among US lawyers about the experience and specialist knowledge of individual barristers; a tendency among barristers to act as "an aloof consultant" rather than to work as a team member; and a failure to appreciate "the business concerns driving a client."

Another cause of irritation was the Bar's tradition of brief fees rather than an hourly rates – coupled with a coyness when talking about money.

Barristers, Mr Vollmer said, must be more "up-front" about what they expected to be paid.

The Bar's reaction to the speech has been positive and less defensive than that of the clerks.

Mr Robert Johnson, QC, the Bar chairman, said that although he did not agree with all of Mr Vollmer's criticisms, the points he had made had been substantial and helpful.

"The Bar is losing out and it was very helpful that he was able to spell out in very practical terms some of the reasons for it."

Mr Johnson said it was true that the sort of expertise US lawyers required was not as widely available at the Bar as it ought to be. At the same time, however, when American attorneys and London solicitors were really in trouble "it's to the Bar that they turn."

Mr Vollmer's remarks had highlighted the differences in the working practices of the Bar and solicitors, Mr Johnson said.

Barristers had traditionally been asked to perform particular tasks, such as drafting documents, whereas solicitors had become accustomed to being more involved in the commercial negotiations.

"He was saying that we must be willing to get more involved. Not simply to wait to be asked to fulfil a particular task but to involve ourselves as part of a team."

The provision of financial services was a comparatively new area for the Bar, Mr Johnson said. "But we are undoubtedly there, though perhaps not in sufficient quantities, and I think we have got to change our attitude so that barristers are more ready to be involved on a continuing basis when a deal is being negotiated."

Mr Nicholas Stewart, QC, a member of the Bar's International practice committee, said he found it extremely hard to disagree with Mr Vollmer's criticisms.

"I think the Bar has been rather slow to get into some areas. It's very important that in areas like financial services, barristers are prepared to make an effort to get the expertise."

Mr Stewart thought Mr Vollmer's comments about the clerks were probably shared by many solicitors. He said that if something needed to be done about the clerking system it was up to the barristers. "We employ them. They are our responsibility."

Mr William Park, a senior partner in Linklaters & Paines, one of the largest City solicitors firms, said he had a very good relationship with the Bar but had to agree with Mr Vollmer that barristers were losing out to, and could not, as things stood, compete with solicitors.

"I don't want to knock the Bar but I do think they have got to change, to adopt a more universal approach.

"They isolate themselves from clients. The overseas client gets the impression that they are members of a private club."

However, Bill Park parted company with Mr Vollmer on the subject of barristers' clerks. "I find them very useful," he said. "I'm not sure I'd like to be dealing with a secretary as opposed to a clerk, because a barrister's clerk has got more authority."

One factor in his firm's choice of chambers was the standing of the clerk, he said, thereby ensuring that he, at least, won't need a minder.

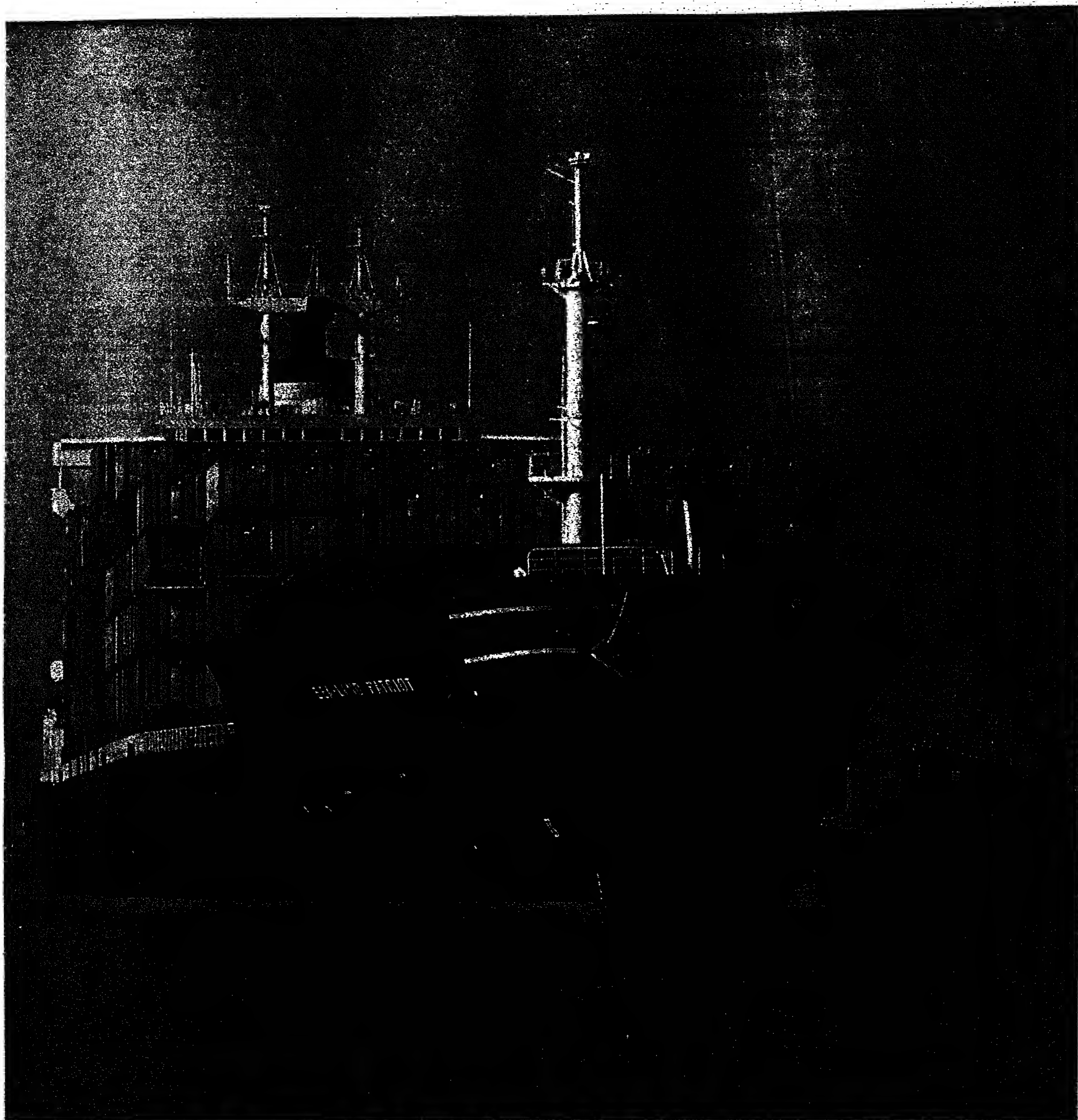
LEGAL APPOINTMENTS

LAW SOCIETY ADMISSIONS
1ST OCTOBER 1988

LAW SOCIETY ADMISSIONS - 1ST OCTOBER 1988

RILEY, Karen Diana LL.B Mrs, Chesterfield, Derbyshire
ROBERTS, Adele LL.B Miss, Wirral, Merseyside
ROBERTS, David John LL.B Mr, Yarmouth, Nr Norwich
ROBERTSON, Nicholas Reid Mr, London
ROBINSON, Judith Elizabeth B.A. Mrs, Gravesend, Kent,
ROBINSON, Katherine Anne B.A. Miss, Maidstone, Kent,
ROCKLIFF, Beverley Jane LL.B Miss, Frome, Somerset,
ROGERS, David Martin B.A. Mr, Leamington, Warwickshire,
ROGERS, Simon Neil LL.B Mr, Maidstone, Kent
ROSCOE, Peter John B.A. Mr, Shrewsbury, Shropshire
ROSS, Adrian Craig LL.B Mr, Newcastle-under-Lyme, Staffs,
ROTHERHAM, Hilary Mrs, Nottingham,
ROWSELL, Claire Louise LL.B Miss, Bristol,
RUBINSTEIN, James Richard LL.B Mr, London,
RUBINSTEIN, Louisa Jane LL.B Miss, Manchester,
RUSHTON, Melanie Jayne LL.B Miss, Sherwood, Nottingham
RYAN, Stephen Gavin LL.B Mr, Norwich, Norfolk,
RYDER, Dominique Michelle LL.B Miss, London,
SAMUELSON, Daniel Alexander B.A. Mr, London,
SANDERS, Jennifer Kathleen Ms, Wheatley, Oxon,
SANTRY, Owen John LL.B Mr, Bath, Avon,
SAYNOR, Jeremy Paul LL.B Mr, Dover, Kent
SCOTTS, Roger George Newton B.A. Mr, London,
SELVASKANDAN, Rajendran Mr, Wembley, Middlesex,
(Solicitor of the Supreme Court of Sri Lanka)
SENIOR, Kaye Louise Mrs, Cookley, Nr Kidderminster, Worcestershire
SERGEANT, Caroline Anne LL.B Miss, Liverpool,
SERGINSON, Pamela LL.B Ms, London,
SHACKLETON, Alan B.A. Mr, London,
SHAH, Hakam Ramanial B.Sc Mr, London
SHARP, Jonathan Siggel LL.B Mr, Harpenden, Hertfordshire,
SHARPE, Nigel Richard LL.B Mr, Bedford
SHAW, Angela Jane LL.B Miss, Leeds
SHAW, Philip John LL.B Mr, High Wycombe, Bucks
SHEIKH, Saleem LL.B LL.M Mr, London,
SHEPHERD, Michael Anthony D.Phil. B.A. Mr, London,
SIDEBOTTOM, Matthew Braddock LL.B Mr, Pontardawe, Clwyd,
SILVERBLATT, Ian Jonathan LL.B Mr, London,
SILVERSTEIN, Raymond Morris Mr, London
SIMON, Jenny LL.B Miss, Solihull, West Midlands
SIMONS, Sharon Ann Mrs, Edgbaston, Birmingham
SIMPSON, Helen Ruth LL.B Miss, London,
SIMPSON, Stewart Martin LL.B Mr, Stockport, Cheshire,
SINGLETON, Maureen LL.B Mrs, Willerby, North Humberside,
SIRON, Dorothy Patricia, Ms, Hong Kong
(Solicitor of the Supreme Court of Hong Kong)
SLESSENGER, James Timothy B.A. Mr, London,
SLOWE, Tania Lilian B.A. Miss, London
SMALL, Laura LL.B Mrs, Bristol,
SMALLWOOD, Madeleine Anne B.A. Miss, Abingdon, Oxon,
SMELLIE, David John LL.B Mr, St. Albans, Hertfordshire,
SMITH, Angela Mead LL.B Miss, Baglan, Port Talbot
SMITH, Anthony Richard LL.B Mr, Tamworth, Staffordshire
SMITH, David LL.B Mr, Rumney, Cardiff
SMITH, Frank Jeffrey LL.B Mr, West Boldon, Tyne and Wear
SMITH, Richard Lawrence LL.B Mr, Nr Tring, Herts,
SMITH, Ruth Emmet B.A. Miss, Richmond, Surrey
SMYTHE, David John Bavis LL.B Mr, London,
SNOWDEN, Tracey Caroline LL.B Miss, Hornchurch, Essex
SOHNA, Mak Ng Tai Sum, Mrs, Hong Kong
(Solicitor of the Supreme Court of Hong Kong)
SOUTHERN, Joanne LL.B Miss, London,
SPRATT, Paul Guy Christopher LL.B Mr, Newcastle under Lyme, Staffordshire,
SPRINCE, Alan LL.B Mr, Gateacre, Liverpool
STEINBERG, Amanda Julie B.A. Mrs, London,
STEPHENS, Jane LL.B Miss, London,
STEPHENSON, Kathryn Anne Louise Mrs, Ipswich, Suffolk,
STEVENSON, David John B.A. Mr, Solihull, West Midlands,
STONE, Derek Charles B.A. Mr, London,
SUNDERLAND, Sharon Jane LL.B Miss, Southampton, Hampshire
SWALLOW, Jayne Louise Miss, London,
SWINBOURN, Richard George B.A. Mr, London
TAIT, Nigel Gordon Thomas Michael B.A. Mr, London,
TALUKDAR, Shefali LL.B Miss, Bacup, Lancs,
TATTERSALL, Stephen LL.B Mr, Carlisle, Cumbria,
TAUB, Daniel B.A. Mr, London,
TAYLOR, Jennifer Shan LL.B Miss, Barton Park, Worcester
THACKER, Stephen George B.Sc Mr, Llangattock, Powys,
THOMAS, Martin Keith LL.B Mr, Esher, Surrey,
THOMPSON, Gillian Ellen B.A. Miss, Guildford, Surrey,
THOMSON, Christopher John LL.B Mr, Norwich,
THORNTON, Jonathan Michael B.A. Mr, London,
THOROGOOD, Graham Vivian LL.B Mr, Dagenham, Essex,
TIPPLE, Karen Elizabeth B.A. Miss, High Storrs, Sheffield,
TONG, Jacqueline Elizabeth LL.B Miss, East Yorkshire,
TOPPING, Christopher Paul LL.B Mr, Liverpool,
TOWNEND, Fiona Jane LL.B Miss, London,
TRAVERS, Maxwell Harvey M.A. Mr, Manchester,
TRIMBOS, John B.A. Mr, Nottingham,
TRING, Gregory John LL.B Mr, Nottingham,
TRUMAN, Bella Jane LL.B Miss, Birmingham,
TRUMAN, Jennifer Ann LL.B Miss, Stourbridge, Nr Malvern, Worcestershire
TSIN, Margaret B.A. Miss, London,
TURLEY, Jane Louise LL.B Miss, Sheffield,
VAGHELA, Manoj Kumar LL.B Mr, Rugby, Warwickshire
VENKIK, Vinay Angar Nath LL.B Mr, Basingstoke, Hants,
VERNON, Carole Ann LL.B Miss, Redhill, Surrey,
VESSEY, Elizabeth Claire Stapleton BSC Mrs, Chipstead, Surrey,
VIALLS, Peter Robert Martin LL.B Mr, Huntingdon, Cambridgeshire
WADDELL, Hamish Charles Keith LL.B Mr, London
WAKELING, Michael John Mr, Kenilworth, Warwickshire,
WALKER, Calvin John B.A. Mr, London,
WALLER, Carla Elizabeth LL.B Miss, Shipley, W Yorkshire,
WALLWORK, Simon John LL.B Mr, Altrincham, Cheshire,
WALMSLEY, Margaret Louise LL.B Ms Darlington, Co. Durham,
WALSH, Ian Derek LL.B Mr, Wavertree, Liverpool,
WALTON, Michele Mildred B.A. Ms, London,
WARD, Caroline Elizabeth LL.B Miss, Liverpool,
WATTERSON, Mark Vernon B.A. Mr, Sevenoaks, Kent,
WAYMAN, Trevor John LL.B Mr, Brentwood, Essex
WEBSTER, Michael Gordon B.A. Mr, London,
WEEKS, Lucy Elizabeth B.A. Miss, Oxford,
WEITZMAN, Frances Mary Alexandra Ms, London,
WENTZELL, David Gerard Mr, Toronto, Ontario, Canada
(Solicitor of the Supreme Court of Ontario)
WHITE, Helen Claire B.A. Miss, London,
WHITE, Patricia Irene LL.B Miss, Southampton
WHITE, Ruth Anne LL.B Miss, Lincoln
WHITEHEAD, Andrew Rigg LL.B Mr, Warwick, Warwickshire
WIEHAND, John Peter Dietrich B.A. Mr, Esher, Surrey,
WIJAYATILAKE, Yasnatissa Janakadasa Wansundara
(Solicitor of the Supreme Court of Sri Lanka)
Mr, Colombo 10, Sri Lanka
WILCOX, Catherine Lucy Frances B.A. Miss, London,
WILKINS, Julian Thomas LL.B Mr, Seaford, East Sussex,
WILKINSON, Mary Penelope Caroline Lucy LL.B Miss, London,
WILLETTS, Guy Duncan LL.B Dip in Et Jur Fr. Mr, Sunbury on Thames, Surrey
WILLETTS, Judith Elizabeth B.A. Miss, Bristol, Avon,
WILLIAMS, David Rhys LL.B Mr, Rhyl, Clwyd
WILLIAMS, Frances Mary LL.B Mrs, Perton, Nr Wolverhampton, Staffs
WILLIAMSON, Penelope Dawn LL.B Miss, Wakefield, West Yorkshire
WILLIS, Tina Alma B.A. Ms, London,
WIND, Deborah Jane B.Sc Miss, Totterdown, Bristol
WINTER, Helen Margaret M.A. Mrs, Wolverhampton, West Midlands
WITNEY, Kevin John B.A. Mr, Bath, Avon,
WONG, Shui-Kin Mr, Central, Hong Kong
(Solicitor of the Supreme Court of Hong Kong)
WOO, Jackson Ka Hin B.A. Mr, London,
WOOD, Pascale Edith Marie-Anne LL.B Miss, New Barnet, Herts,
WOODALL, Clodagh Geraldine LL.B Mrs, London,
WOOLLANS, Linda Jayne LL.B Miss, Peverell, Plymouth
WORTHINGTON, Nicholas David Haygarth LL.B Mr, Wolverhampton, West Midlands
WOTHERSPOON, Robert Peter Mr,
(Solicitor of the Supreme Court of New Zealand)
West [illegible], London
WOTTON, Penelope Anne Miss, Ilford, Essex,
WRIGHT, Gordon James B.A. Mr, Leeds, West Yorkshire,
WRIGHT, Martin Joseph B.A. Mr, London,
YEE, Anthony Chiang Sheung Mr,
(Solicitor of the Supreme Court of Hong Kong) Hong Kong
YOUNG, David Guy B.A. Mr, Eastbourne, East Sussex
YOUNG, Stephen James B.A. LL.M. LL.M Mr, London,

Due to an unprecedented reponse to our legal cartoon competition, we have had to postpone the announcement of the winner until Monday 17 October 1988.



Another One Of Our Trains Arrives At The Station.

If you think we're just a railroad, take another look.

We're a lot more. We're Sea-Land, one of the largest container ship lines on earth, serving 76 ports in 64 countries.

We're also trucks and barges. And we're developing new technology to make it all work together.

We're CSX, the first true global transporter. If you've never heard of one before, it's because there's never been one before. This is a company on the move.

CSX

The Company That Puts Things In Motion.

ARTS

Karajan

FESTIVAL HALL

Drama of a non-musical kind preceded Thursday's London concert by the Berlin Philharmonic Orchestra. The orchestra's instruments had been held up at one of the French Channel ports currently involved in an industrial dispute; eventually they reached the Festival Hall — sufficiently to delay the start by an hour.

Whether this was in some way responsible for the heightened atmosphere in the concert hall, and the elevated quality of the performances, it is probably sentimental to speculate. But then, the very arrival of Herbert von Karajan on the podium is itself now a dramatic act, a frail figure, sadly diminished in strength and stature, reaching its destination by an effort of purest willpower. The phrase *das Wunder Karajan* seems now to take on a chastened, even heroic ring: and certainly, the performances of Schoenberg and Brahms that we heard seemed in similar manner stripped of all but the music-making essentials.

In times past, when this fabled combination of conductor and orchestra has visited us, it has been something of a London critical tradition to admire with doubts, to praise with reservations, to withhold the final highest accolades. On this occasion the tradition will here be slighted. The first half of the concert was devoted to Schoenberg's *Verklärte Nacht*, played in its string-ensemble arrangement (and forming an instalment in the South Bank's "Reluctant Revolutionary" series). It is possible to insist (as I do) that the web of musical ideas is most powerfully and authentically elucidated by the string sextet for which Schoenberg originally produced the work; but, granted the choice of the amplification, it is surely impossible to hope for a more marvellously subtle, eloquent, and beautiful realisation thereof than we heard on Thursday.

One of the interesting features of the concert was the amount of loose ensemble now tolerated by the conductor — the opening paragraphs offered many instances of inexact unison lines or contrapuntal mesh, yet as the temperature of the music began to rise, one appreciated Karajan's long-range structural planning ever more admiringly. In the final pages, with string textures of almost impalpable delicacy and radiance, the sense of poetry made (musical) flesh was overwhelming.

To follow, the Brahms C minor Symphony. I can remember London accounts of this work in which the Karajan-Berlin vision appeared heavy, rhythmically inert, an act of musical triumphalism on the grandest scale. But it is a different kind of Brahms now, at once freer and more spontaneous. The lustre, richness, and power of the Berlin sound is no longer vaunted for its own sake; one sensed what can only (perhaps impertinently) be called an intimation-of-mortality urgency to the playing that gave it the most genuine and ennobling kind of grandeur.

Max Loppert

Viktor Ullmann

RUDOLF STEINER HALL

Viktor Ullmann was born in 1898 in Moravia, studied with Schoenberg in Vienna, was an associate of the quarter-tone composer Alois Hába, and shared his commitment to the theosophical teachings of Rudolf Steiner. In 1942 he and his wife were transported to the prison camp at Terezín, where he organised musical activities, composed prolifically, and with the poet Peter Kien created the opera *Der Kaiser von Atlantis*. He perished on the way to Auschwitz in 1944.

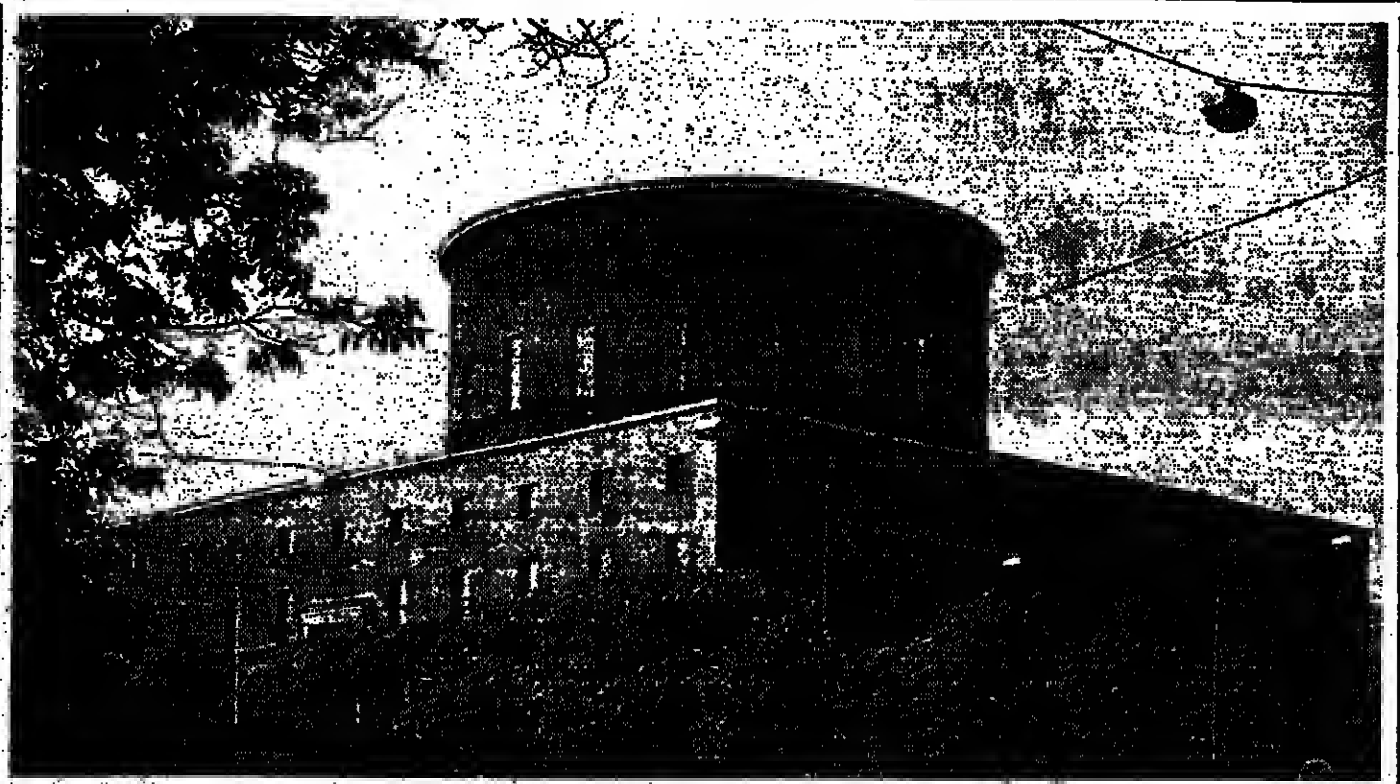
He became better known in this country when Mecklenburgh Opera presented *The Emperor of Atlantis* at the London International Opera Festival earlier this year. During preparations for that production, manuscripts of other works by Ullmann came to light, and on Thursday evening, under the auspices of The Wiener Library, as part of the B'nai B'rith Jewish Music Festival, and at the appropriate venue of the Rudolf Steiner Hall, NW11, the company was able to give the probable first performances of four sets of songs; we also got the probable first complete postwar performance of the Piano Sonata No. 1, Op. 10 (1936), as well as two arias from the opera.

Ullmann's style is a strenuous late romanticism forever pushing towards expressionism and sometimes achieving it; the sound-world of Berg's op. 1 piano sonata is very like his — a world of pervasive semi-dissonance, with moments of crystalline harmonic subtlety and contrastingly big impassioned gestures. Ullmann's links with tonality are never entirely severed; he can freely take up or withdraw from astringent atonality — a freedom at artistic borders sadly unparalleled by any physical freedom of movement within his actual life.

The third movement of the piano sonata, marked "Agitato, presto," espouses a certain atonal gaiety such as is found in some of Schoenberg's liveliest piano writing, but the solemn harmonies of the second movement, a funeral march for Mahler, are more plausibly Regerish or Hindemithian, while the busy, finely-worked textures of the Molto agitato first movement call up the nineteenth-century virtuoso tradition by giving it a new gloss. Elisabeth Morgan performed the work brilliantly, just as she accompanied all the songs with spirited musicianship and an often lambent touch.

The Songbook of Hafiz, Op. 30 (1940) for bass and piano — stirringly projected by Brian Bannatyne-Scott — sometimes suggested Schoenberg's cabaret songs (as in "Betrunken"); the third of the four, "Unwiderstehliche Schönheit," was particularly touching. The *Three Sonnets from the Portuguese*, Op. 29 (1939-40) — settings of Rilke's translations of Elizabeth Barrett Browning — were impressive as performed by the high soprano Lorna Washington, who also rose convincingly to the great climax in the fifth of *Six Sonnets of Louise Labé*, Op. 34 (1941), and kept their overheated emotionalism satisfactorily under control. The three baritone songs from 1942 (poems by C.F.Meyer) were striking albeit that the singer, Glenville Hargreaves, sounded throaty, as he still did later in the *Atlantis* aria. Ullmann clearly emerges as a song-composer of distinction.

Paul Driver



Stockholm City Library: a magnificent example of the work of Gunnar Asplund

ARCHITECTURE

Pioneer of the Swedish effect

Colin Amery discusses the work of Gunnar Asplund

Until the end of October at the Architectural Association in London there is a long awaited exhibition of the work of the pioneer Swedish architect Gunnar Asplund (1885 - 1940). The exhibition of original drawings, furniture, objects and photographs has been curated by the Swedish Architecture Museum in Stockholm.

Asplund is very relevant to the dilemma of modern architecture. He started life as an accomplished practitioner of Neo-Classicism, which has been described as Nordic Doricism. He evolved slowly into a pioneer of Swedish functionalism, the style we associate with Sweden today and which influenced architects in Britain from the Festival of Britain onwards: that particular kind of spiky, flag-bedecked architecture that flowered at the Stockholm exhibition in 1930 was the direct source for the 1951 South Bank Exhibition.

Asplund's earlier classical work such as the Snellman House, the Lister Courthouse and above all in the great Stockholm Library, represents the finest Scandinavian modern classicism. What a tragedy that the Royal Institute of British Architects were unable to hold the exhibition in their own London Headquarters as had originally been hoped. Their building, designed in in 1932-4 by Grey Wornum, is the finest example in Britain of the influence of Scandinavian classicism. Only a total lack of imagination on the part of the administrators of the profession can be responsible for such a lost opportunity.

Asplund's career moved speedily from the vernacular through classical to modern: today many architects are taking that same journey but in reverse. "It is more important to follow the style of the place than that of the time" he wrote in 1919. Yet his drawings reveal a strong personal style, although a delicate and sensitive one. They have an almost festive quality — a light touch with classicism that has definitely influenced our post-modern architects. Both Michael Graves and Robert Venturi know the early courthouse and the Snellman House well.

There are fascinating connexions between Asplund and the present. He understood that classicism offers a simplicity and a rationality that takes it above style. The interior of his 1918 Woodland Chapel with its simple domed roof resting on a circle of Doric columns is a revelation. You do not expect this cool solemn interior when you first see this building with its steep roof and wooden shingles; there is both rationality and sensuality — a perfect combination.

Sometimes there is a literalness about this early work which is also a less attractive habit of the current post-modernists. The key to the cemetery chapel fits neatly into the eye of a skull made of iron on the gate. The Lister courthouse was designed when Asplund's wife was pregnant and its bulging form and and centrally placed openings suggest, none too subtly, other preoccupations.

At the Stockholm City Library (1928) some of that early levity has gone. But what a magnificent building it is. It stands in the northern area of Stockholm that formed part of a town planning project in the 1920s. A circular drum-like lending hall rises out of a plain square base of reading rooms and offices; the main entrance is reached via a sloping ramp that leads to an Egyptian-style tall door, clearly based upon the entry to the Thorvaldsen Museum in Copenhagen, Denmark.

Asplund's sources for the library range from Palladio's Villa Rotonda to the Ledoux Barrière de la Villette in Paris (1789). The overall stripped and simple appearance is satisfying and original; the decorative detail and the furniture, most of which survives, shows the value of having an architect to design everything. A band of modern hieroglyphs surrounds the base of the drum — there is a pram, a bucket and spade and a train masquerading as early Egyptian symbols. To open the main north door you push on a naked Adam or Eve posing as door handles; they lead the way from "paradise" to the "world of knowledge." Wall paintings and furniture in a light hearted version of Swedish classicism point to the light contemporary furniture that was to find such favour in Scandinavia in the 1950's.

This library marks the turning point for architecture in northern Europe. Although classical in plan and form it has a coolness and simplicity that marks the arrival of functionalism. It is at the Gothenburg Law Courts that we see how Asplund ultimately decides to go modern. He worked on the designs from 1913 and they go from national romantic to classical to modern functional, which was bravely built in 1937. Look at the bent plywood interior with its top light and circle of dots for a clock and you are in the world of elegant minimalism. It is this minimalism that distinguishes the crematorium that Asplund built up to his own death in 1940. The simplicity of form is allied to an intense understanding of nature and landscape; the seriousness is almost cold and depressing.

Asplund is one of the key architects of the twentieth century and his influence is still very strongly felt. I hope that a lot of practising architects go to the exhibition where they will all learn a lesson in architectural good manners as well as originality.

Day and Night

THE PLACE

Last year Dansproduktie, a Dutch experimental dance troupe, came to The Place with a most imaginative staging, *Double Track*. This was dazzlingly produced by Beppie Blankert, using see-through mirrors, film, duplicated images, to explore a text by Samuel Beckett. Dansproduktie has now returned to London with a very different piece, very different in means and motives from its earlier offering.

Day and Night is in two sections. Once again there is good design, — by Kees Dekker — which features an arc of mirrored panels that serves as a a backing for the dances and as bridge over which the cast may cross, behind them hanging a panel which is palely coloured for the initial "Day," then dark blue for the nocturnal second half.

The text of the work is dance with no obvious motivation, its production ideas amounting to various devices to doctor a piano.

Day uses a computer-controlled apparatus that acts as a player-piano mechanism, which the dancers can activate to call up musical items, composed by Guus Janssen when they chose. *Night* is set to John Cage's Three Dances for two prepared pianos, idiomatically performed by Antonio Chagas Rosa and Jaap Dieleman.

What we see in *Day* is group choreography by and for six dancers that amounts to no more than fragments of inconsiderable movement, given with an overwhelming niceness of manner and lashings of team spirit, and little physical excitement. The performers are drearily costumed in silvery outfits: the mechanical piano maunders on and so does the dance, which is aleatory in its order though not in its components. It is inoffensive, none the less, and, like much artistic activity designed by committee, lacks dramatic teeth either to bite or smile.

Night, choreographed by Bianca van Dillen, falls signally to respond to the exciting rattle and gamelan-clatter of Cage's score. The dancers offer interminable diagonals of movement, tracing to and fro across the stage, before a physically taxing but otherwise purposeless duet emerges for two of the women.

Clement Crisp

Jean-Michel Jarre

ROYAL VICTORIA DOCK

The Big Bang, alias Jean-Michel Jarre, finally reached the Docklands over the weekend. The Royal Victoria Dock, a remote and harmless post-industrial relic, was blasted with more noise, and illuminated with more rainbow flares, than it attracted in 1940, and I'm not going to add the whimper about trudging through the mud, frozen and sodden, searching for sanctuary after the megalomaniac Frenchman's Saturday concert. It was a supreme happening, and at a happening every second is experience.

Wartime images were ever present: the stoicism and good humour from the crowd of 100,000, some of whom had huddled for eight hours, in sheep pens, waiting for the big push; the final spotlit arrival of the commander who was to conduct the campaign; then, when hostilities began, the long stretches of tedium before the next sudden burst of devastating action.

Jarre, a tiny figure in peacock blue, orchestrated it all from a huge moored barge as brilliantly lit as a cruise liner. His main attack was directed on two whitewashed warehouse walls on the far side of the Dock which were subject to a constant battery of visual images, some ludicrously reminiscent of those drippy slides so beloved by the Underground of the 1960s; some with the propaganda precision of Soviet social realist art. The most popular portrayed three workers, an unsubtle reminder that this whole £2m farrago was a promotion for Jarre's, latest album, entitled Revolutions.

While the warehouses took the main force of the offensive, multi-coloured spotlights and the occasional laser beam raked the surrounding cranes and gantries and offices and tower blocks. When the entire neighbourhood seemed flattened into numb surrender, fireworks were let loose in joyous, extravagant profusion. They were the best bits, the wide open spaces of London's dark and disused river banks being transfigured into gala night in Venice. Suddenly the happening was benign. "We have no wind; we have no rain; and you are here," lied Jarre, as a stiff breeze from the east whipped daggers of moisture into our faces, but his ego, an ego which had faced down the bureaucrats of Newham Council, somehow made the physical discomfort an illusion.

What about the music? Hmm, well. Rather to my surprise, hidden beneath the weight of equipment on the barge were live musicians (and, briefly, Hank Marvin) who produced the pretentious formless noises that the BBC Electronic workshop used to throw together for Dr Who. At its best it sounded as if a particularly inspired kitten was padding up and down some vast mechanical keyboard. It is "New Age" music of gargantuan portentousness, the kind of music which reminds you that you are conscious but which does not expect to be listened to. Occasionally a finite melody gets through that you might recognise twice — in my case "Computer week end." Now and then a vast choir would clamber on board to hum and hah, but Jarre's musical strokes could not compete with his musical strikes.

The event had been hyped out of recognition and the paucity of the lasers particularly miffed the climatically seared who were stuck to the £30 grandstand seats, but as a community gathering, as an adventure, as a supreme example of packaging, as a conversation stopper, it was undoubtedly the most impressive happening to be held in Docklands last Saturday. Now explain again constable, just which way is West Ham tube?

Antony Thorncroft

Schidlof Memorial Concert

WIGMORE HALL

Peter Schidlof, viola player in the Amadeus Quartet for almost 40 years, died in August 1986. His sudden death inevitably meant the disbandment of the quartet, though his colleagues have continued to play together as the Ensemble Amadeus.

They appeared in that guise at the Wigmore Hall on Saturday, in a gala concert to pay tribute to Schidlof's art and to launch the Amadeus Scholarship Fund in his memory, which will provide scholarships to a summer school for young string-quartet players organised in conjunction with the Royal Academy Music.

Occasions of this kind are of course as important for what they represent as for the music-making they evince. It was nevertheless special in both respects. In piano trios by Mozart (in B flat K.502) and Beethoven (in C minor Op.1 no.3) Norbert Brainin and Martin Lovett were joined by Murray Perahia in performances of supple spontaneity and relaxed enjoyment. Perahia's phrasing in the Larghetto of K.502, and his subtle characterisation of the variations in the slow movement of the Beethoven were special pleasures.

Brainin's playing in particular took a while to settle, but that has been true in almost every Amadeus performance one has heard over the years. And, just as in the past, the clouds and uncertainties suddenly cleared — after much dubious intonation in the Mozart trio he went to lead a quite glorious account of Brahms's G major String Sextet Op.36. Here Brainin, Lovett and Sigmund Nissel combined with three members of the Alban Berg Quartet, with its leader Günter Pichler joining Thomas Kakuska as the two violas.

The playing was remarkable for its breadth and homogeneity, with the massive spans of the first movement articulated as naturally as breathing and each paragraph shaped to a perfectly placed climax. Nothing was hurried; all repeats were observed, as they were throughout the evening. Even the finale was unfolded at a leisurely pace, and the work allowed to leave a air of delicate, lingering sadness. Schidlof was the most assured and self-effacing of quartet players, and a performance such as this, in which nothing was overstated yet everything held in perfect equilibrium, was the best possible way in which to remember his genius.

Andrew Clements

SALEROOM

Aussie Earl sells up

The Earl of Stradbroke, or Keith as he is known to his Australian mates, is selling off the family silver, along with the furniture and books, on the site of Old Henham Hall, near Wangford in Suffolk for three days starting today. The house disappeared after the War and the new Earl, with 13 children and innumerable Australian sheep to support, hopes to raise £1m from the remaining contents to keep his properties in New South Wales and in Suffolk as going concerns.

This will be the first major fine art auction organised by the Prudential, which got involved with fine art auctioneering as a consequence of buying up over 800 estate agents some of which owned salerooms. It has prepared a smart catalogue and although there are no masterpieces on offer, the silver, which includes racing trophies awarded to a scion of the house, Admiral Rous, in 1866 for his role in writing the Jockey Club rules, should attract interest, also a pair of Victorian candelabra, made by Hancock in 1866, which carries a top estimate of £50,000. A painting by Henry Chalon of "Quiz," a horse which won 17 races in the early 19th century, has a price handicap of up to £80,000.

Bonhams has an intriguing charity auction on Wednesday evening in aid of the Cancer Relief Macmillan Fund. Over a hundred personalities have contributed one of their ties to be sold off, including President Reagan. "President" Gorbachev's is still in the post, but among other attractions are ties worn by five British Prime Ministers, Lord Olivier, Dustin Hoffman, Mick Jagger, Leonard Bernstein, and Dennis Thatcher. Few should sell for under £100 but charity sales are odd affairs.

The serious business this week is Islamic art. Sotheby's today is offering the biggest single page ever sold at auction. It measures 184 cm by 115 cm and comes from an early 15th century Koran. Only two similar pages are known, both in private collections.

Christie's has the perfect response tomorrow — 14 pages, each with a miniature, from the Shahnameh, the great Persian folk epic by Firdowsi, which reached its most perfect form in a mid 16th century manuscript of 759 folios (258 with miniatures) which was in the Treasury of the Ottoman Emperors, and came into the hands of Arthur Houghton in 1959. Since then it has been split up and these miniatures carry individual estimates of up to £200,000.

Antony Thorncroft

"Pagodas" postponed

The première of Kenneth Macmillan's new full-length work for the Royal Ballet, *The Prince of the Pagodas*, has been postponed until December 1989 due to his recent illness.

Originally planned for May next, it will be replaced by Natalia Makarova's production of *La Bayadère*.

ARTS GUIDE

MUSIC

London

Beethoven Plus is a series of concerts between September 18 and December 10 which seek to set the composer's music in the context of his own time. The work of over 20 of Beethoven's contemporaries will also be featured. Royal Festival Hall, Queen Elizabeth Hall, Purcell Room. (928 3191).

BBC Symphony Orchestra conducted by Lothar Zagrosek, with Roland Hermann (baritone), Brigitte Fassbaender (mezzo-soprano) and the BBC Singers. Brahms, Schönberg. Royal Festival Hall (Mon) (928 3191; cc 928 8800).

Orchestra and Chorus of the World conducted by James. Bach's B Minor Mass. Concert in aid of Great Ormond Street Hospital. Royal Albert Hall (Mon) (589 8212; 589 9465).

The Philharmonia conducted by Giuseppe Sinopoli, with Gil Shaham (violin) and ladies of the Philharmonia Chorus. Debussy, Mendelssohn. Royal Festival Hall (Tue) (928 3191; cc 928 8800).

Berlin Symphony Orchestra conducted by Claus Peter Flor, with Cécile Ousset (piano). Prokofiev, Saint-Saens, Dvorak. Barbican Hall (Tue) (638 8891).

London Mozart Players conducted by Jane Glover, with Kun Woo Paik (piano). Mozart, Beethoven, Haydn. Royal Festival Hall (Wed) (928 3191; cc 928 8800).

Dietrich Fischer-Dieskau with Hartmut Höll (piano). Schubert: Goethe Lieder. Queen Elizabeth Hall (Wed) (928 3191; cc 928 8800).

The Philharmonia conducted by Roger Norrington, with John Lill (piano). Stravinsky, Bach-meninov, Berlioz. Royal Festival Hall (Thur) (928 3191; cc 928 8800).

Paris

Ensemble Intercontemporain conducted by Kent Nagano, with Anna Steiger (soprano). Nono, Stockhausen, Zimmermann, Varese. Théâtre Renaud-Barrault (Mon) (42560880).

Orchestre de Paris conducted by Witold Lutoslawski, with Krystian Zimerman (piano) and Etienne Peclard (cello). Lutoslawski. Salle Pleyel (Wed, Thur) (45630796).

Opéra Orchestra and choir conducted by Daniel Barenboim, with soloists Julia Varady, Trudeliese Schmidt, Gary Lakes, Siegmund Nimsgern. Beethoven (Ninth symphony). Opéra (Thur) (47425371).

Donna Brown (soprano), Francis Dudziak (baritone), Jean-Bernard Dartigollee (piano). Liszt, Gounod, Saint-Saens, Chausson, Franck. Musée d'Orsay, Salle de Fêtes (Thur) (40494814).

Milan

Trio di Trieste. Brahms, Schubert. Teatro alla Scala (Tues) (80.91.26).

Rome

Württembergisches Chamber Orchestra conducted by Jorg Faerber, with Anne Sophie Mutter. Haydn, Bach, Mozart, Respighi. Teatro Olimpico (Thurs) (3962635). Norbert Balatsch conducts Bruckner's Ecce Sacerdos and his Mass No. 2 in E minor, with Anne Pusar (soprano), Anne Gjevang (mezzosoprano), James Wagner (tenor) and Philipp Kang (bass). Auditorium in Via della Conciliazione (Mon, Tues) (6541044).

Vienna

Wiener Mozart Orchester (in historical costume). Sofiensaele (Wed).

Wiener Ensemble conducted by Antonio Loparico, with Rafael Donnadio (piano). Revueltas, Gattermayer, Ginastera. Musikverein (Mon).

Orchestra da camera di Santa Cecilia, conductor and soloist, Uto Ughi (violin). Rossini, Mozart, Rossi, Viotti. Musikverein (Tues).

Wiener Schubert Trio. Shostakovitch, Pirchner, Zemlinsky, Beethoven. Musikverein (Tues).

Wiener Symphoniker and Wiener Sängerknaben conducted by Manfred Honeck, with Ernst Kovacic (violin). Berg, Dvorak. Konzerthaus (Wed, Thurs).

Frankfurt

Radio Symphony Orchestra (Frankfurt Alte Oper) under Eliahu Inbal with Friedrich Smetana (Wed, Thurs).

New York

New York Philharmonic (Avery Fisher Hall, Lincoln Center). Andrew Davis conducting, Dmitry Sitkovetsky violin, Stanley Drucker clarinet. Shostakovich, Bernstein (Wed) (362 8719).

On Original Instruments (Merkin Hall). Anner Bylsma 'cello, Stanley Ritchie violin, Malcolm Bilson fortepiano. Schubert, Beethoven (Wed). (362 8719).

Washington

National Symphony (Kennedy Center Concert Hall). Gunther Herbig conducting. Haydn, Schubert, Schoenberg (Thur) (254 3776).

Chicago

Chicago Symphony (Orchestra Hall). Sir Georg Solti conducting, Walfrid Kujala flute. Schubert, Schuller, Beethoven (Thur). (435 8122).

Berlin

Berlin Philharmonic Orchestra (Berlin Philharmonie) conducted by Erich Leinsdorf with Ottomar Borwitzky 'cello, Dvorak, E. Bloch. (Tues, Wed).

Tokyo

Alexis Weissenberg (piano). Chopin. Suntory Hall. (Mon) (289 9999).

Josef Suk (violin) with Masahiro Saito (piano). Dvorak, Handel, Brahms, Janacek, Smetana. Casals Hall (Tues) (294 2525).

Japan Philharmonic Orchestra conducted by Vladimir Ghiaurov, with Mirella Freni (soprano). Puccini, Verdi, Bizet, Tchaikovsky. Suntory Hall (Tues) (505 1010).

Tokyo Symphony Orchestra. Suntory Hall, 2nd Anniversary Gala concert with Mirella Freni, Josef Suk, Dan Tai Song, Roger Wagner Chorale (Wed) (505 1010). Classical Japanese Music. Momochi Kai (koto). ABC Hall (Wed) (467 3653).

NHK Symphony Orchestra conducted by Herbert Blomstedt. Mozart. NHK Hall, Shibuya (Thurs) (465 1780).

FINANCIAL TIMES
BRACKEN HOUSE, CANNON STREET, LONDON EC4 P4BY
Telegrams: Finantimo, London PS4. Telex: 8954871
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Monday October 10 1988

A two tier stock market

LAST WEEK's decision by the securities off-shoot of Barclays Bank to cut its dealing spreads in equities while reducing the size of the bargains it quotes on the International Stock Exchange's screen-based trading system caused predictable concern among the firm's competitors. Coming after a similar move by Phillips & Drew it also raises questions about the future structure of the market. With market makers ceasing to advertise the size in which they are prepared to deal with favoured clients, it begins to look as though we are creeping back to a form of dealing that was meant to disappear with Big Bang in 1986. The question is whether this amounts to a serious threat to the whole structure of the market.

On the face of it the UK equity market can no longer be described as genuinely transparent if two of the biggest integrated securities houses have gone down this route. Liquidity might also be expected to suffer, given that the same two are no longer prepared to accept an obligation to make firm prices in any size to fellow members of the International Stock Exchange. They have taken the view that their capital should be confined to supporting business with clients, not competitors. The result is that they will be less heavily exposed to adverse price movements; or, to put it more crudely, they are less likely to be wrong-footed in a game of pass the parcel where far too much capital is chasing a declining volume of business.

Resentment

Put like that, it sounds like a case of the big boys flexing their muscles without regard to the wider impact on the market. Only those with a substantial market share can afford to cut themselves off from the possibility of unwinding a position with other market makers. But there are some who argue that the new dealing system was not operating with the degree of transparency and liquidity originally intended. Stories abound of market makers failing to deal in the advertised size and of resentment in some of the larger firms about differing degrees of commitment to the market. If it was already a two-tier market, is it so damaging to acknowledge the fact in the way that Barclays and Phillips & Drew have done?

Whatever the rights and wrongs of that particular argument, there can be no doubt that institutional investors have so far come out of it well. The Stock Exchange estimates that price spreads have narrowed by around 30 per cent since Phillips & Drew originally made its move; it claims to detect no signs of declining liquidity – if anything the opposite. It could also be argued, after the influx of capital in the run up to Big Bang, that there is excessive liquidity in relation to the requirements of the primary market in which industry raises fresh capital. And while less information may now be available on the screens, the obligation remains for Stock Exchange members to record the price and size of bargains on the exchange's Topic system.

Small trades

In the US the NASDAQ system, on which London's new market is largely modelled, has always operated on the basis of advertising firm prices for small trades. Anything of institutional size has been subject to negotiation, even if the Securities and Exchange Commission would be happier if it were otherwise. When the SEAQ system was first set up in London many Americans argued that quotations in size would not last in the face of serious competition. They will not be surprised by the latest turn of events.

Clearly a retreat from a more transparent market is a cause for regret. But it is probably the inevitable result of an immense and predictable increase in competition after Big Bang. The real problem is that a trend towards a polarised market, in which some deal with clients and others deal increasingly with their fellow market makers, is not sustainable. At some point market concentration will lead to a widening of spreads. As so often, with deregulation, the big battalions will come out on top.

Chile's transition to democracy

THE DEFEAT of General Augusto Pinochet in last week's presidential plebiscite has radically altered the political landscape of Chile and marks the beginning of a transition process. The logical conclusion should be the recovery of a much-prized tradition of democracy, so brutally interrupted in 1973 by the military coup that overthrew the Allende Government.

The circumstances are highly unusual. After ruling for 15 years as a military dictator, Gen Pinochet sought to legitimise a further eight years in office by submitting himself to a plebiscite. Having failed to win a majority vote, he is still constitutionally entitled to be president for another 18 months. Temporarily, such a constitutional provision ensures there is no vacuum of power; but it cannot obscure the fact that the regime's authority has been weakened and that Gen Pinochet is now under pressure to leave early.

No exact parallel

Recent instances of countries which have experienced a transition from military to civilian rule offer no exact parallel. Spain's successful transition, which has provided an inspiration throughout Latin America, was conditioned by Franco's peaceful death in office and the existence of an independent institution, the monarchy, committed to democracy. In Argentina the military in effect surrendered power to the civilians as a result of the Falklands conflict and the accumulated odium of abusing human rights and mismanaging the economy. In Brazil and Uruguay the military lost the will to govern against the background of demands for more accountable government. Chile, nevertheless, has one point in common with these countries: it has patently outgrown the need for military government. This is the underlying message of the plebiscite.

In the national interest, the ideal solution would be for the Government and opposition to initiate early negotiations on constitutional reform and the holding of parliamentary and presidential elections. This would give the clearest possible signal of the regime's good faith in the result of the plebiscite, and it would also defuse the natural tensions latent in a society whose political activity has been artificially frozen for 15 years. The way the vote split roughly 55/45 in the opposition's favour cries out for dialogue. For its part, the opposition is not seeking a complete break with the past, especially on economic matters.

The initial statements from both Gen Pinochet and his ministers suggest the regime is going to delay any negotiation with the opposition as long as possible. They seem be following the maxim that governments do not concede power: the opposition has to fight for power and win it. The 16 opposition parties acquired moral force from their victory in the plebiscite. This can be converted into political power only by the maintenance of a unified front with credible leaders.

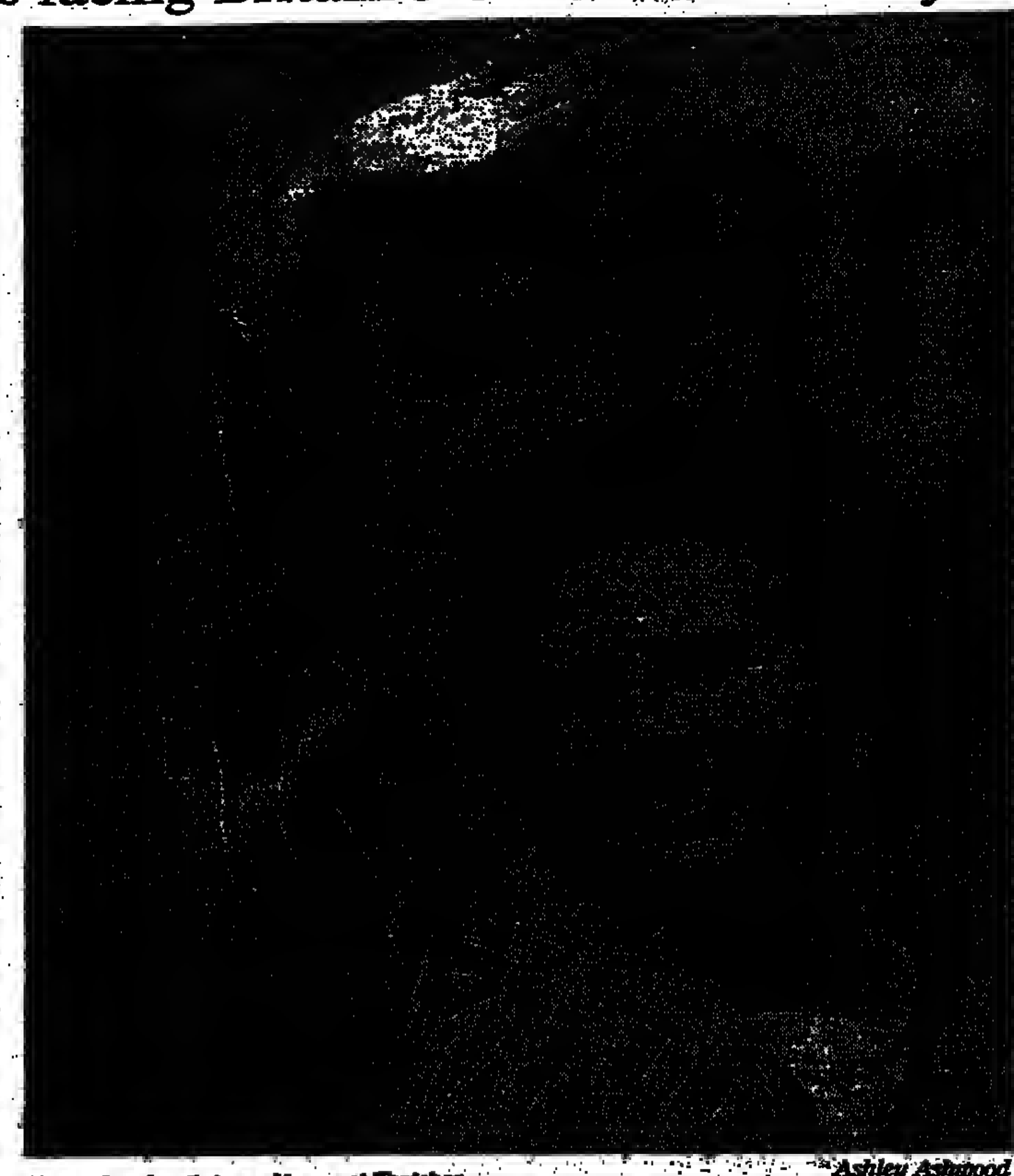
Sophisticated society

There is bound to be a cat and mouse game over who makes the first move. Nevertheless, sooner or later Gen Pinochet cannot escape from the consequences of his own actions. Even if he had won, the 1980 constitution committed him to preparing for full parliamentary elections in December next year as part of a broad aim to introduce a guided democracy over the next decade. This was an unrealistically long timescale for a sophisticated society, whose very economic and social progress under Gen Pinochet has created the need for more accountable government.

Chile – unlike Argentina and Brazil – is favoured by a soundly managed economy which has been restructured with sufficient skill to ensure reasonable growth despite external shocks. Thus the political debate does not need to be distracted by economic issues which have so undermined and discredited the Alfonsin Government in Argentina and the Sarney Government in Brazil. Moreover, the real message coming ever louder from Spain is that prosperity underpins democracy. On the other hand, any refusal by the Chilean military to accept that the rules of the political game have changed would be a recipe for instability which could jeopardise the regime's hard-won economic achievements.

Peter Riddell considers the challenges facing Britain's Conservative Party

Holding course for the 1990s



Towards a fourth term: Margaret Thatcher — Ashley Ashwood

"THE REAL DANGER is that some people at the top of the party are becoming complacent. They're sure we're going to win the next election," one senior minister noted ahead of the Conservative Party conference starting at Brighton tomorrow.

For him, the dangerous mid-term period of the parliament is about to start. It is then that the ruling party's popularity tends to fall as controversial legislation is implemented and awkward economic decisions are taken. It is also then that parties can lose momentum and stumble.

Mr Peter Brooke, the Conservative Party chairman, needs little reminder of such dangers. He well remembers the early 1960s when the Macmillan Government, also a third term *administration, came* unstuck. His father, the late Lord (Henry) Brooke was involved in many of the controversies of that period as Home Secretary.

There has been little so far to disturb the confidence of most senior Tories. As the accompanying table shows, the party remains in as strong a position as in the autumns of 1980 and 1984, after the first 15 months of the last two parliaments. This is despite some recent narrowing of its opinion poll lead with renewed worries about the economy.

The Tories have also found plenty of ammunition in the conferences of the opposition parties. There has been the continued disarray among the centre parties; and the reaffirmation of a unilateralist nuclear defence policy by Labour last Thursday. The heavy-handed reminder of trade union power by Mr Ron Todd of the Transport Workers could have been devised by Mr Norman Tebbit, the Tories' former chairman, in one of his more mischievous moments.

More fundamentally, most MPs of all parties believe that the Tories will win the next general election. This is also the view of 80 per cent of the electorate, according to a Gallup survey. Only 11 per cent believe Labour will win, including just 22 per cent of its own supporters. In autumn 1980, fewer than 30 per cent of voters thought the Tories would win. Even four years ago the number expecting a Conservative victory had only just risen above 60 per cent.

Matching this broader political confidence, the Government is driving forward with its ambitious legislative programme. The bills proposing a far-reaching shake-up of the educational system and of local government finance have already been enacted, little changed by Parliament, with the House of Lords returning today to consider the bill to revive the private and socially rented housing sectors. Income tax rates have been slashed. And the privatisation of the electricity and water industries will be in the Queen's Speech this November, with broadcasting deregulation a year later.

So the Thatcherite revolution is still in full flood. Mr Graham Mather of the Institute of Economic Affairs, the standard-bearer for the free-marketeers since the 1950s, jokes about losing count of the number of new converts to the market approach each day during the party conference season – most striking last Tuesday when Mr Neil Kinnock urged Labour to come to terms with the market economy.

Opposition leaders have been keenly searching for popular positions on which to outflank the Tories. The banners of citizenship, consumerism and a concern with "green" environmental issues have all been waved. But Mrs Thatcher and her ministers will undoubtedly take them up in Brighton this week, with, for example, the intensified drive on pollution control. Although there is argument over specific issues, there is so far no "big idea" on offer from the opposition to catch the imagination.

However, while the Conservative conference may this week *seem at times bland and* smug about its rivals, there are cross-currents of concern which will surface in ministerial speeches and at fringe meetings. There is little sense of complacency among the group of free market think-tanks which interlink with Whitehall advisers to press new policy initiatives.

Mr David Willetts of the Centre for Policy Studies notes that since so many of the ideas in the Conservative manifesto last year are rapidly being embodied in law, attention should turn to implementation. However, he detects among ministers and civil servants something of what he terms an Oxbridge essay approach, in which after concentrating *totally on completing one* subject for a week, the focus then shifts on to next week's topic. He believes the effort should now go into ensuring that significant numbers of schools opt out from local authority control and that there is a large-scale transfer of housing away from Town Hall management.

Looking ahead, a common theme is that while in its first two terms the Government tackled many of the most pressing economic problems in Britain, the priority now should be to take forward the Thatcher revolution into the social arena – *the health* service, education, the environment and law and order. The application of a free market approach has been clear in much of the economy, with exceptions like the retention of mortgage tax relief, but the implications have been more ambiguous for social provision, partly because of public attachment to the welfare state.

Mr Mather of the IEA sees the Government's initial response to problems as seeking improved management – as with the nationalised industries from 1979 to 1981. Only when the limits of managerialism have been seen are more radical solutions applied, as with the development of privatisation after 1982.

Similarly, the ministerial review set up last January in response to the protests over health service funding appears likely to produce an initially managerialist approach. The proposals are expected to stop well short of free-market ideas for changing the whole basis of financing the service advocated by some of the think-tanks.

In what will be a very interim report on the still uncompleted review, Mr Kenneth Clarke, the Health Secretary, is expected on Thursday to proclaim the virtues of the NHS. *He will talk about* improving it organically by managerial changes coupled with encouragement for closer private sector involvement.

The new, and unexpected, element in this debate on the social agenda is "the active citizen". This fashionable creation was devised by Mr Douglas Hurd, the Home Secretary. Mr Kenneth Baker, the Education Secretary, has talked in similar terms about increasing social cohesion. Some of the free-marketeers, such as the Adam Smith Institute and its anti-authoritarian sympathisers, are suspicious of these initiatives as smacking of traditional Tory paternalism. They note the contrast between the law liberalising pub opening hours and the latest action to restrict drinking in public places. There is a similar conflict between liberalisation to promote choice and regulation to preserve standards in the debate over broadcasting.

However, the active citizen is seen by others, such as Mr Willetts, as representing a reaction to the attitudes of dependency on the state engendered by the welfare state – the belief that no one has to do any more than pay their taxes. The theory is that while basic services like health and education will still be publicly financed, there is scope for individuals and companies to exercise social responsibility. All this is seen as an answer to Mr Kinnock's attack on the "me and now" nature of Thatcherism. It is very much in line with Mrs Thatcher's middle-class values, based on neighbourhood and family and deferred gratification. Indeed, by all accounts, her father, the late Alderman Roberts of Grantham, was an early paradigm of the active citizen.

Some of these themes are expected to be reflected in Mrs Thatcher's address on Friday, and a speech by Mr Hurd looking forward to a fourth Tory term. At present, however, much of this talk is general and vague. There has been no detailed policy preparation in Whitehall, and the Brighton conference will be the first opportunity to see what Mr Willetts calls the "social aspects of the enterprise culture" means in practice.

In general, there is no sense of a party running out of ideas. Proposals are circulating on the privatisation of the coal and rail industries, on extending the ownership of capital, on reducing agricultural subsidies, on trade barriers, and on private financing of public infrastructure projects.

Mr John Redwood, the former head of the Downing Street Policy Unit and now an active Tory backbench MP, thinks that devising regulatory mechanisms for the conduct of business will be a key fourth term task now that the state has withdrawn from ownership of most of its previous industrial activities. He also argues that after an election will be the right time to adopt more radical health proposals and to take another look at social provision, "the dependency culture" and residential care for the elderly.

In the short-term, Mr Willetts believes there may be a renewed debate about supply side performance. Some of the talk earlier this year about an economic miracle has been overshadowed by worries over overheating and the current account. Like Mr Mather of the IEA, he believes the focus may therefore shift back to the labour market – the continued attachment of employers to going rates of pay and comparability; the coexistence of continued high unemployment, even in areas like London, and shortages of labour; and problems of training and standards *of staff.*

Indeed, apart from hardy conference perennials like law and order and newer concerns like the scale of development in south east England and the future of the European Community, much of the media attention in Brighton will be on the speech from Mr Nigel Lawson, the Chancellor, on Thursday. His message will be one of reassurance: that the advances of the past nine years have not been undermined by current problems and high interest rates. The increase in voters' worries about the economy is so far still a squall rather than a storm. Mr Lawson retains the confidence of his colleagues, even if his Downing Street neighbour has reservations at times.

Yet all senior Tories agree that the key to retaining their dominant political position and riding out any mid-term problems next year is economic prosperity. If that continues, there is little to fear from controversies such as those likely over the introduction of the poll tax, or community charge, and housing and education changes, or from slip-ups like the Westland affair.

There will be much fun in Brighton in the conference hall and around the fringe meetings watching the jockeying for the limelight of possible successors to Mrs Thatcher, like Mr Hurd, Mr Baker and the exile on the backbenches, Mr Michael Heseltine. But all bets in the political world are that Mrs Thatcher will fulfill the official conference slogan: "Leading Britain into the 1990s."

OPINION POLL RATINGS

	Conservative	Labour	Centre
Autumn 1980	37.5	44.5	14.5
Autumn 1984	41.8	32.8	23.1
Autumn 1988	43.3	36.3	10.6/6.1

* Gallup figures for average ratings over three months in period 12-15 months after a general election.
Centre party figures refer to Liberals in 1980, SDP/Liberal Alliance in 1984, and Democrats/SDP in 1988.
Source: Gallup

OBSERVER

New business in Oxford

■ A small company in Oxford is doing rather well out of the current volatility in the oil market. MRC, which stands for the Marine Reporting Company, claims to be the only company in the world specialising in providing information on risk and credit assessment in the oil trading industry. It is based in Oxford partly because Stuart Kenner, the managing director, took his degree there, in politics, philosophy and economics, in the early 1970s, and partly because, he says, Oxford is now as good a location as any for a group engaged in international communications.

MRC was established three years ago to provide credit status reports on the marine industry. It began to take off in a bigger way last autumn when it moved into scrutinising oil trading. The collapse in oil prices in 1986, according to Kenner, was the first indicator that such a company was needed. The uncertainties in the oil market in the last few months have proved its point.

The fall in prices, says Kenner, has made it much harder for the small oil traders to operate. In addition, the growth of screen trading has reduced the need for the middle man. The price can change, for instance, while the trading executive is in flight from London to Lagos. So you can do just as well by watching developments from Oxford.

Kenner claims to have found a niche business, but expects others to begin to compete in the near future. As oil moves away from physical trading, it becomes more and more a banking proposition, he says. Thus he forecasts that the clearing banks will shortly enter the field.

Meanwhile, MRC continues to expand. Its staff has risen from 5 to 18. It is providing reports to the oil majors and was invited to send an observer to this week's conference of the American Petroleum Credit Association at Nashville, Tennessee. Kenner himself has been invited to talk to the Japanese Ministry for International Trade and Industry in Tokyo next month and the company is moving into other commodities.

One difficulty, Kenner admits, is knowing what to charge for reports. "Some organisations are ready to pay a lot of money for information," he says. MRC is about to take outside advice on this matter.

Old learning

■ Observer should have learned by now never to take information on trust, even from the most academic of sources. We wrote on September 29 that the University of Bologna, which is celebrating its 900th anniversary this year, is the oldest in the world, and the source seemed immaculate. It is, in fact, the oldest in Europe. The oldest university in the world is the Academy of Quaraouyine at Fez, Morocco, which was established in 895 and is still going strong. There are mutterings, however, that a counter-claim to longevity might be mounted from Tunisia.

Baseball first

■ Baseball and politics do not mix. Or so it would seem from the scheduling problems surrounding the next televised debate between the US presidential candidates, George Bush and Michael Dukakis.

We know that their second and final encounter will take place at Los Angeles, probably this week. But the precise date remains uncertain: everything depends on the outcome of the

"Now what am I supposed to read while you're at your wretched conference?"

American League baseball championship matches between the red-hot Oakland Athletics and the much-improved Boston Red Sox.

At the time of writing, Oakland had a *2-0 lead and could* technically wrap up the best-of-seven series by today. In that case, the debate could go ahead on Thursday. However, if Boston should make a come-back and the series stretch to seven games, the debate will have to be postponed until Friday.

The uncertainty is largely the creation of Bush's own pitching staff, led by the former Treasury Secretary, James Baker, who can throw a curve ball as mean as anyone in American politics. It was Baker who deliberately scheduled the two presidential debates in the middle of the Olympics and baseball play-offs in an effort to reduce their TV drawing power. He knew that Bush is not a particularly heavy hitter on television; and, as everybody now knows, neither is his running mate, Daniel Quayle.

*The Los Angeles debate suf*fered one further indignity: the original sponsor, the League of Women Voters, withdrew in protest over the respective campaigns' attempts to control the rules and format, and declared it would not be "an accessory to the hoodwinking of the American public."

Explosive tax

■ The highest individual taxpayer in South Korea last year was the chairman of the company which makes teargas. According to the tax authorities, Han Yong Ja, one of Seoul's few female company chairmen, paid a total of £2.4m in personal income tax, beating the chairman of the national airline into second place.

In third place was Kim Seung Youn, chairman of the diversified business group, Korea Explosives. "Dynamite Kim", as he is known, made a visible contribution to the *Olympic Games* by providing several spectacular fireworks displays. Spectators at the closing ceremony were sufficiently startled to wonder whether the noise might not frighten the North Koreans.

A report to South Korea's National Assembly says that the police have bought 1.4m tear gas shells since 1986 for use in student demonstrations. Their cost was undisclosed, but Han reported income of more than £4m. Without doubt, 1987 was a bumper year for tear gas manufacturers, with millions of ordinary people joining the students demonstrating for democracy. Although the current year has been by no means totally peaceful, tax revenues from explosives are expected to be down.

Irish weather

■ Seen on a wall in Loyalist Belfast: "We will never forsake the blue skies of Ulster for the grey mists of the Republic."

Steven Butler examines the likelihood of a crash in oil prices this year

How to survive in a glut of oil

This autumn, oil prices are at new lows almost every day, presaging what is beginning to look like the rerun of a bad movie: The Oil Crash of 1986.

Saudi Arabia has once again decided to flood the world with oil, creating alarm as revenues plummet in oil exporting countries. Expectations are growing that Saudi Arabia will hold its ground until the other big Gulf oil producers, which are vastly exceeding the quotas set by the Organisation of Petroleum Exporting Countries, fall into line. This could take weeks, more probably months, to be resolved.

Will the period ahead turn out to be a simple replay of the 1986 saga?

"No," says Mr David Grey, oil analyst at James Capel. "Nobody is worried about it this time."

That, he admits, is a slight exaggeration, but only slight. Shares of the major oil companies have declined, but they have fallen much more slowly than the price of oil itself and at a rate that cannot be compared with the steep declines of 1986. In fact, profits are still rising. Shares in independent oil companies, whose revenues are hurt most by the fall in crude prices, are booming.

Aberdeen and Houston are bracing themselves for a cutback in exploration programmes due to reduced cash flows, but no one expects to see the disaster of two years ago when oil service companies saw turnover slide by a third in just three months.

In 1986 the sudden collapse of prices was a great shock to the oil companies, which had built their operations on the assumption that prices would continue to rise from a plateau of over $30 a barrel. The collapse caught the industry by surprise. Companies tried to trim costs at every level — slashing exploration budgets and postponing development projects. Many smaller independent companies ran into serious financial difficulty. In the UK virtually all oil companies, with the exception of Enterprise Oil, passed dividend payments. Oil producing countries, and areas such as Texas and Scotland, became nervous as unemployment rose suddenly and property values plummeted.

For much of the rest of the world, the crash in prices was largely good news. Petrol and heating costs came down, inflation was tamed and interest rates declined. Economic growth was rekindled in the newly industrialised countries of the Far East where growth had begun to falter. And the industrialised countries of the world began two more years of economic prosperity.

But, if the oil price scenario of 1988 proves similar to 1986, the impact is likely to be quite different.

First of all, it has been seen before. 1986 did not turn out to be quite as bad as expected. It proved relatively simple to calculate what oil companies would lose from the production side of the business. But what was not appreciated at the time were the compensating factors which boosted profits in other areas of the business or mitigated losses on crude sales. As crude prices declined, refining and marketing margins were increased because prices for refined products, both wholesale and retail, fell far more slowly. Tax regimes also proved more flexible than was anticipated, meaning that governments often shared the burden of declining prices. The cut in exploration programmes also quickly reduced the scale of losses.

So, in fact, the big international oil companies did reasonably well in 1986. Profits fell in 1987, as the effects of the price decline worked through, but picked up smartly in 1988.

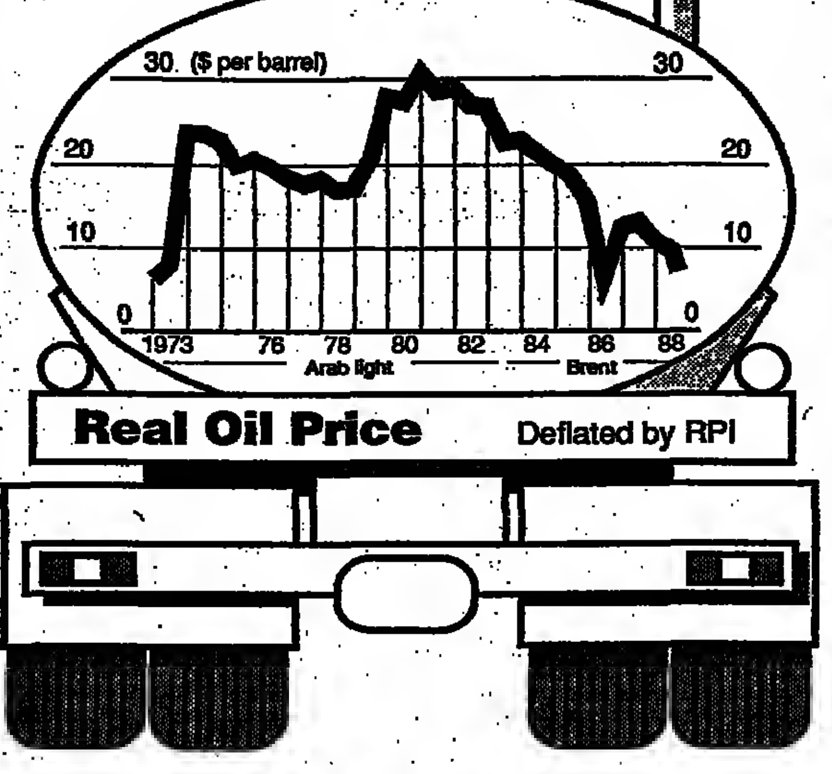
The second reason why a price collapse will have a different impact today is that oil companies are now much better prepared. They are leaner and fitter. Refining and marketing has been an area of thin to negative margins for most of this decade. The process of rationalising and improving efficiency started before 1986, but has continued since.

Although the aggregate demand for petroleum products has not grown rapidly, changes in the composition of demand have worked to the benefit of oil companies.

Europe, particularly Continental Europe, still has surplus refinery capacity, but demand for transportation fuels, petrol and diesel, has grown rapidly. This has given good profits to companies which have installed upgrading facilities to produce more light petroleum products. They are selling more higher-margin products, and less low-margin products such as heavy fuel oil.

Most of the major companies have also boosted their investment in petrochemicals — which has paid off handsomely. Oil companies now have a new source of profit in an industry which, though cyclical, does not simply rise and fall with crude oil prices. Chemicals profits have grown spectacularly this year, and while this growth is not expected to continue, chemicals should at least hold their own next year to the absence of a recession.

On the exploration and production side, operating costs have fallen sharply in the past two years, and are expected to continue falling more gradually as new technology comes into use. For example, in the North Sea development costs have fallen by nearly half: the fall in demand has led suppliers to cut prices and new technology and design concepts have also reduced costs. North Sea exploration companies have grown accustomed to



Brent Oil selling at a relatively cheap $15 (£9) a barrel this year, and exploration programmes have been unaffected while many development programmes have moved forward. In the US, where oil exploration is less capital intensive, cutbacks have already taken place.

Sustained price weakness, at say $12 a barrel or below, would probably lead to some retrenchment in North Sea exploration, and marginal development projects might be delayed. But the cutbacks would not be as wholesale as in 1986 unless companies revise their price expectations not just for 1989, but for the next decade.

Some independent oil companies have used the interlude of relative oil price strength to set up long term credit arrangements. Although reduced cash flow will lead to a cut in exploration budgets, this would in turn cause a drop in rates for drilling rigs and tempt many companies to come back in order to drill at bargain prices.

This is not, of course, to say that there will be no damage done by weak oil prices. Merril Lynch Capital Markets has calculated that a $1 drop in average oil prices for a year results to $1.6bn decline in earnings for the six major oil companies — Chevron, Exxon, Mobil, Texaco, British Petroleum and Royal Dutch/Shell — unadjusted for the compensating factors mentioned above.

Within this group of companies, however, some are more exposed than others. Texaco stands to lose nearly a quarter of its income from a $1 drop in the oil price, while BP would lose $346m, or 12 per cent. Shell is by far the most resilient, losing $336m per dollar drop, or 5.7 per cent; while Exxon comes in a close second, losing 7.5 per cent.

Mr Jeremy Elden, of Phillips & Drew, believes that BP could be forced to freeze or reduce its dividend should prices remain at current levels for a sustained period. Others disagree: they believe BP would ride it out by using its strong cash flow to keep dividends growing comfortably.

Fully half of BP's profits come from refining and marketing, chemicals, and minerals. And because they are highly geared to the oil price, BP's profits stand ready to zoom ahead should prices rise once again — as almost everyone believes they will, sooner or later.

The major oil companies are still able to pay dividends in the face of oil price weakness. This has underpinned share prices because yields look attractive.

In the independent sector, takeover speculation has caused prices to soar. Investors have apparently learned the lessons of recent years, that oil companies plan and acquire assets based on their expectations of what will happen in 10 years' time. While some companies, such as Shell, are pessimistic, others are continuing to pay prices for assets that assume a good deal of optimism.

Outside the oil industry, news of another steep drop in oil prices has been greeted with yawns. Economists say that a sudden, sharp redistribution of resources from oil producers to consumers should lead to a short term net decline in aggregate demand. This is because money that was being spent by oil producers will not be spent so rapidly by consumers. Eliminating jobs in one sector of the economy can be accomplished much faster than creating them in another.

This time, however, the absolute and proportionate size of the price decline is much smaller. Prices fell from over $30 to less than $10 in 1986 before recovering. The floor on prices may be lower this time, but prices do not have to fall so far to get there, having been below $18 a barrel for the whole of the year.

Because the price drop will be proportionately smaller, every effect of the change will be smaller too. Phillips & Drew has calculated that a $5 a barrel fall in oil prices lasting for a year would take a quarter point off UK inflation, take £1bn from exports, and lead to less than £500m of lost government revenue. Sterling is unlikely to be strongly affected.

Consumers, at least in the UK, are unlikely to notice much difference in petrol prices, since duty and VAT together make up most of the cost at the pump, reducing the impact of crude price declines. From 1986 to 1987, UK pump prices declined by just 11 per cent, compared to a 27 per cent fall in the US.

If there is an oil price collapse in 1988, the effects would be concentrated on the countries heavily dependent on the export of oil. Those to suffer most would include Algeria, Indonesia, Nigeria, Venezuela, Indonesia, and Mexico — all countries with serious debt and trade problems that do not have the capacity to boost production to compensate for lost revenue. Their difficulties were dramatically illustrated last week by the state of siege declared in Algiers after food rioting.

Saudi Arabia, Iraq, Kuwait, and the United Arab Emirates, the countries most responsible for the current glut of crude oil, will also suffer as prices plummet. But they can at least comfort themselves that it remains in their strategic interest to turn on the taps in order to claim a bigger share of the world market, perhaps permanently.

LOMBARD

Sad omens for fifth TV channel

By Samuel Brittan

Douglas Hurd, the British Home Secretary, spoke earlier this year of "well-heeled, articulate interests adept at identifying their own well-being with the public good." Yet, unless we receive a pleasant surprise these interests look like prevailing in the finance of the fifth UK terrestrial television channel, to be announced in the forthcoming Broadcasting White Paper.

If, as is all too probable, the channel is to be entirely advertising-financed, then we should give a thumbs-down signal to the white paper. It will be a sign that the Government, in broadcasting as in some other areas, cannot distinguish between genuine market forces and just giving in to commercial pressure.

The best basis for assessment is to bear in mind that there are three known methods of payment for television: advertising, pay-TV, and tax finance. Each has drawbacks.

Advertising finance has a bias towards the mass market and is not sufficiently sensitive to consumer preferences. Pay-TV, to which viewers pay directly per channel or per programme, runs into public goods problems — in other words, viewers are excluded who could be supplied at little, if any, extra cost. Tax finance, of which the BBC licence fee is a form, has all the well-known problems of government subsidy and public sector involvement.

The way to overcome these drawbacks is to use a mixture of all three methods, so that the strong as well as the weak aspects of each are experienced. The yawning gap at present is the absence of pay-TV, which alone of the methods provides a direct link between viewers and programme channels.

There is no justification for confining the direct consumer market to those people prepared to invest in satellite dishes when the restriction is not technically necessary. It is also ironical that the Government should be trying to nudge the BBC into subscription finance but not adopting this method for the fifth channel, where the case for it is far far stronger.

Even leaving the winning applicant to decide on his own form of finance would be a pseudo-market solution, as it would be an abdication of the Government's duty to set the ground rules under which competition and choice can flourish.

One reason why there is support for an advertising-financed fifth channel is pressure by some advertisers who grumble about the "cost" of advertising time. Minimising the price of advertising time is hardly a sensible object for broadcasting policy. But even if it were, the strategy is misplaced.

The only way to reduce the price per viewer minute would be either for the advertising channels to make major inroads into the BBC's half of the television audience or to increase the number of permitted advsrtising minutes. The latter would not necessarily be in the viewer's interest.

Another motive is to protect British Satellite Broadcasting for its first few years from the competition of a terrestrial subscription system. This smacks of the discredited industrial strategy of the Government picking favoured companies — so-called winners. The relative merits of rival subscription systems are surely for the viewer to decide. The role of policy should be to facilitate the functioning of a competitive market in which rival services are possible.

The Peacock Committee linked its support for deregulation and competition with an opposition to paternalism. Its approach to broadcasting was based on the US First Amendment which outlaws pre-publication censorship. The recommendation has not only been rejected. Policy has moved towards greater censorship, as we see in the new Broadcasting Standards Council.

A decision not to finance a fifth channel by subscription would be a further retrogression. For it would signify that the Government has rejected a genuine consumer market, even within the confines of the type of programmes which Mrs Thatcher and her advisers think that the British public ought to be allowed to see.

LETTERS

Al Saudi Banque: a 'bizarre' solution

From Mr R Monro-Davies

Sir, Lex (October 6) comments on the failure of Al Saudi Banque. Although full details are still not available, this is an extraordinary story which will surely rank with bank failures as notorious as those of Herstatt, Schroeder Meunchmeyer Hengst, Penn Square and Johnson Matthey.

Al Saudi's most recent annual report is for the year ended December 1986, which showed that it had loans outstanding of $630m. Since that time it appears that, through a combination of provisions for Less Developed Countries and bad private sector lending decisions in both France and the Middle East, the bank has lost approximately £300m, or almost half the value of its total portfolio. This is not a record, as Penn Square lost nearly 80 per cent of its loans, but puts it ahead of Johnson Matthey which managed to lose a trifling 40 per cent.

Al Saudi's problems will have been known to the French banking regulators for at least a year, but it seems they continued to hope that its shareholders would provide the funds needed. Who the real shareholders are is not officially known; they are represented by fronts in Curacao and Luxembourg. However, it is now apparent that they are either unwilling or unable to come up with the funds required.

The Bank of France has already proposed a number of schemes and not surprisingly — as a great deal of money is involved — has thereby caused considerable annoyance and debate. It now seems the Bank is mandating a solution which verges on the bizarre.

All depositors with Al Saudi who placed their funds from France are to sustain a part of the loss. All depositors from abroad are going to be repaid in full while the remaining shortfall is to be made up by all the banks in the French banking system.

Central bankers are always keen to cover their mistakes by declaring their actions to be in the national interest, and the Bank of France is no exception. It is clear that anyone placing funds with Al Saudi was either doing so because they did not know what they were doing (how could they if they had not seen figures for over 20 months?) or because they were confident the shareholders would bail the bank out.

In this they were either incompetent or wrong. In any other field of commerce they would be expected to pay the penalty for their error. However, in this case, if they are fortunate enough to have placed funds from a source outside France, they get off scot-free and, even if they placed them from France, they are going to be subsidised by the rest of the French banking system.

It must also be open to question whether a state-controlled entity such as Thomson, which had apparently placed the extraordinarily large sum of $70m with Al Saudi, should be involved in the management and control of the rescue. Why should some unfortunate bank in Lyons be required to subsidise Thomson?

Every time a bank fails, bank depositors at risk of loss scream that this particular case is special, and justice, the national interest, protection of civilised values, demand they should be bailed out. It is encouraging to note in this instance, though, that at least some depositors are going to bear the cost of their mistakes.

Nevertheless, the exemptions make no sense at all. The Bank of France has argued that it wants to promote the development of Paris as a financial centre. The logic of what it has now done, however, is that all deposit-placing institutions at present based to Paris should not only move out of France altogether but also place their funds with the dodgiest French institutions they can find.

They may do this in the full confidence that the Bank of France has set a precedent that the rest of the French banking system will bail them out if necessary. This is the logic of Clouseau, not of Descartes.

Robin Monro-Davies
Managing Director,
IBCA Banking Analysis,
2 Eldon Street, London EC2

More arguments against contingency fees

From Mr C Dilloway

Sir, The case against contingency fees made by Derrick Owles (October 3) is on legal and ethical grounds. To my mind the practical considerations make a far stronger case against contingency fees.

A contingency fee system would have a distinct tendency to follow certain American practices that the English courts have always thought undesirable.

Contingency fee lawyers do not back losers. In an attempt to avoid taking on losers, US lawyers can have access to a system which provides them with greater information by the taking of dispositions.

Armed with so much evidence from his own client — as well as from the other side — what lawyer on a contingency fee can do other than cut his losses, ie push his client into a settlement or press on with a racing certainty.

A contingency fee lawyer in these circumstances has too much power; for all practical purposes, his decisions almost decide the case — thereby eroding the supremacy of the courts.

Any contingency fee lawyer who adopts an entrepreneurial approach can use the greater insight into the facts that the system gives him to search for new causes of action.

It cannot be desirable to give lawyers a financial interest in creating litigation.

Business is all a matter of agreement and lawyers should be as evenly remunerated for creating sound agreements as they are for resolving disputes. Aggression is a stranger to the fair resolution of disputes.

Contingency fee lawyers have to take a swings and roundabouts approach to their cases. Roughly translated that means that the winners pay for the losers' lawyers. Someone has to pay for the losers' lawyers but it is difficult to see how the winners paying has any virtue over the various other possible arrangements.

As Derrick Owles points out, it is fair justice that is needed — not justice at any price.

The Civil Justice Review has shown a way forward that needs to be tried before we put English lawyers under the pressures usually reserved for door-to-door salesmen.

Cliff Dilloway,
'Highcroft', Gunhouse Lane,
Stroud, Gloucestershire

From Mr J T Hendrick

Sir, The thoughtful article by Derrick Owles (October 3), highlights an interesting historical development. Much of American law is derived from English law.

Yet, at the same time that the UK is considering adoption of the contingency fee system, California is considering a sharp restriction of its own contingency fee system.

On November 8, the people of California will vote on a proposition (No 106) which, if adopted, would limit contingency fees in any tort case to 25 per cent of the first $50,000 recovered by plaintiff, plus 15 per cent of the next $50,000 recovered, plus 10 per cent of any amount over $100,000 recovered.

In addition, the court would be allowed to review the fee and reduce it below the stated limits if the total fee is not reasonable.

By contrast, the current system allows for almost any percentage amount, unless found to be unconscionable, and the fee is usually 33-40 per cent of the total recovered.

The principal exception to this standard practice is that, in 1975, the people of California limited contingency fees recoverable in medical malpractice cases.

I trust that our efforts to impose limits on the fee charged will provide some guidance for UK lawyers in their own consideration of the contingency fee system.

James T Hendrick,
Thelen, Marrin, Johnson & Bridges,
2 Embarcadero Centre,
San Francisco, CA 94111

FINANCIAL TIMES
Monday October 10 1988

Janet Bush on Wall Street

Things that bad dreams are made of

"THE jackals will be out in the press gallery on October 19 but nothing will happen and maybe even the market will go up," said one specialist on the floor of the New York Stock Exchange in anticipation of the first anniversary of the crash.

This date is momentous for market journalists who have been struggling to fill space as the stock market meanders gently from day to day.

It provides an opportunity for substantial retrospection and the NYSE has been more than obliging in providing comment on the year after.

There are few with the wit and perspective of Mr John Phelan, NYSE chairman, who was more involved than most at the time of the crash and in the 12 months since.

Asked if, with the benefit of hindsight, the crash appeared less traumatic than it actually was, Mr Phelan replies: "On reflection it looked worse... It was as bad as your worst dreams without going into bankruptcy."

But Mr Phelan has many positive things to say about what has happened since, and about the future. His relatively sanguine view is formed by a sense that markets go in cycles, that crises have happened before, but that recoveries in confidence have always followed.

Underpinning his confidence is the belief that the market structure proved itself to be surprisingly robust. Member firms who have suffered from the lack of volume in the equity market have been able to compensate with their mergers and acquisition activity and with other sectors of their business. Redundancies have been no more dramatic than after other market breaks and during bear markets.

Mr Phelan is happy that the regulators did not come down on the exchange hard after the crash and that the industry has formulated its own crisis management policies.

More work needs to be done on, for example, co-ordinating clearing and settlement between market segments, but the mutual finger-pointing between the futures markets in Chicago and the cash markets in New York has given way to workable co-operation between market segments. Since April or so, co-ordination between Chicago and New York has been pretty friendly and Mr Phelan reckons a few phone calls would ensure a workable crisis response now that some ground rules have been hashed out between exchanges.

His verdict on the crash is that "excessive speculation was run out of the equity market." People have learned that "you can't throw a trillion (million million) dollars around because there isn't that much liquidity."

It is still too early to tell, he argues, whether investment behaviour has changed fundamentally – for example, whether pension funds will be less speculative and concentrate more on long-term investment. But he predicts that discussions will intensify on whether tax disincentives might be used to reduce speculative activity.

Another possible area of innovation is the discussion within the exchange about developing basket products. The third presentation of ideas was made to the NYSE board last Thursday.

Current thinking centres on a product allowing investors, even private investors, to trade standard portfolios based on the Standard & Poor's 500 for example.

Mr Phelan says the concept of trading portfolios whole is interesting but he has some doubt at this stage of discussions about whether a system could be set up which would lead to continuous trading of baskets of stock.

On the present sluggishness of activity, Mr Phelan does not expect much change this year. But the exchange and its operations team is working on the assumption that volume may pick up by perhaps 5 per cent next year and by 10 per cent each year thereafter.

Mr Phelan says the ironic thing about the October market break was that investors suffered not because of their propensity to take wild risks but from a misconception that they were perfectly hedged against disaster. Portfolio insurance, or so many believed, would allow them to get out of the market. It didn't, but investors will continue to look for alternative safety nets, new derivative instruments and computerised methods to protect their portfolios.

"It is like the surfer who travels the world looking for the perfect wave. Investors will go around the globe looking for the perfect hedge."

UK CHANCELLOR ASSESSES THE FIGHT AGAINST INFLATION ON EVE OF PARTY CONFERENCE

Lawson speaks up for EMS role

By Peter Riddell and Simon Holberton in London

THE UK Government's fight against inflation could have been helped by full UK membership of the European Monetary System, Mr Nigel Lawson, Chancellor of the Exchequer, said yesterday. He also reaffirmed the Government's commitment to the retention of mortgage interest relief, although he said if he were starting a tax system from scratch he would not wish to introduce it.

In an interview with the Sunday Telegraph in advance of the Conservative Party's annual conference, which opens in the south coast resort of Brighton tomorrow, Mr Lawson said membership of the exchange rate mechanism of the EMS might have afforded two advantages to the Government, although he admitted that "we don't know how exactly British membership would have worked out in practice."

The first was that business and industry would have known that devaluation was not an option for the Government and this would have acted as an important financial discipline on them; and, second, financial markets would have known that there was not going to be a "substantial hike in sterling" because currency movements in the EMS were small and relatively infrequent.

Mrs Margaret Thatcher, the Prime Minister, is opposed to Britain joining the EMS fully and has said Britain would become a full member only when the time was right.

In another interview, on commercial television, Mr Lawson said that the Government would retain high interest rates for "as long as is necessary to get on top of inflation." He added that if the pound fell the likely reaction would be a further rise in interest rates.

Mr Lawson admitted that, with the benefit of hindsight, if he had realised how strong the economy and how high borrowing would be, he would have tightened up policy last spring with higher interest rates. But he would not have changed the March Budget with its £4bn cuts in income tax.

Mr Lawson's typically vigorous comments are intended to set the scene for a message of reassurance in his main conference speech on Thursday that the improvement in Britain's economic performance has not been affected by the recent deterioration in the inflation and trade figures.

The annual inflation rate is expected to edge up to around 6 per cent in figures published on Friday. Mr Lawson conceded that no further progress had been made in the past five years in reducing the inflation rate.

The Chancellor's economic approach was strongly supported over the weekend by a number of senior Tories, including Mr Leon Brittan, who is shortly to leave the Commons to become a European Commissioner, and Mr Terence Higgins, the chairman of the Commons Treasury committee.

In the hour-long television interview Mr Lawson said he had no ambition to be Prime Minister and put himself on the side of social liberals in objecting to "a bossy or nanny state" in relation to private conduct.

Ahead of the Brighton conference, party managers are aware of the need to respond to rank-and-file concern over law and order and the environment as reflected in the large number of motions submitted for debate.

Ministers will seek to provide reassurance about Government policy on punishment and crime prevention, and about tight restrictions on new building in the south-east of England. Mr Nicholas Ridley, the Environment Secretary, will strongly defend the Government's record on "green" issues like pollution control.

The vogue term at the conference looks likely to be the "active citizen." Coined by Mr Douglas Hurd, the Home Secretary, it is expected to be taken up by Mrs Thatcher in her closing address. Her advisers have been saying that she will stress the role and responsibilities of the individual citizen, not only in combating crime but in voluntary and charitable activity. She will say that such opportunities have been increased by the country's prosperity.

Mrs Thatcher and other ministers are aware of the need to deal with any worries about the economy. Mr Lawson yesterday emphasised that the Government's economic and fiscal policies were directed towards improving the performance of the British economy over the medium to long-term by providing more incentives. Tax policy was not about managing the economy from day to day or week to week, he said.

The Chancellor agreed that Britain shared with Italy the highest inflation rate among the Group of Seven major industrialised countries.

Holding course for the 1990s, Page 22

Mexico hints at price war as Gulf oil sales to US increase

By Richard Johns in Mexico city

MEXICO HAS given notice that it will take "necessary measures" to defend its share of the world oil market in the face of price-cutting and greater competition by the Gulf states.

A joint statement issued at the weekend by the Ministry of Energy and the state-owned oil corporation, Petroleos Mexicanos (Pemex), emphasises, in particular, that Saudi Arabia had become the leading supplier to the US market. Release of the statement followed a three-day meeting of the Foreign Petroleum Trade Committee, which groups senior officials of the Ministries of Energy, Finance, and Planning and Budget, Pemex and the Bank of Mexico.

The statement gave no hint about the sort of retaliation Mexico might be contemplating or what it could do in the event of any erosion of its traditional share in the US, which, the statement pointed out, was the "only market in which exports are expanding with dynamism."

The committee was understood, however, to have examined the option of joining the "price war."

Mexico has been exporting this year at a rate of 1.325m barrels a day of crude and 30,000 b/d of petroleum products, a level set largely in solidarity with the failed attempt by the Organisation of Petroleum Exporting Countries (Opec) to restrain its collective production within a notional 16.6m b/d ceiling.

In Government circles, there has been a bitter sense of resentment and betrayal over Opec's failure to limit output in support of an oil-reference price of $18 a barrel and, worse, the resumption of the "price war" which proved so damaging to producers' interests in 1986.

Such sentiments would have been reflected in the message – the contents of which have not been revealed here – sent to Opec last week by President Miguel de la Madrid and Mr Fernando Hiriart, Minister of Energy.

There is increasingly grave concern about the implications which the price collapse will have for this heavily indebted country's balance of payments and its growing fiscal deficit.

To maintain exports at the current levels, Pemex last week announced retrospective price cuts for three crude varieties, varying from 57 cents to $1.30.

Isthmus Light shipped to the US, which accounts for almost exactly half Mexico's crude oil shipments, was lowered to $12.80. Last week, Mexican oil sold on the stock market oscillated around $9, the lowest level since August 1986, Pemex pointed out, indicating that a further drastic reduction for October may be inevitable.

Ray McSharry: windfall tax revenue transforms the Government's finances

Mac the Knife cleans up in Irish tax amnesty

By Kieran Cooke in Dublin

THE PEOPLE of Ireland have decided to come clean. In last January's budget, Mr Ray McSharry, Minister for Finance, proposed an amnesty for all tax dodgers, beginning on October 1.

The Government expected the amnesty to bring in I£30m ($43m) in extra revenue. At the weekend Mr McSharry announced that the amnesty had brought in I£500m, nearly 17 times the original Government estimate.

The windfall tax revenue has transformed the Government's finances and means that the exchequer borrowing requirement, as a proportion of gross national product, will drop below 5 per cent this year compared with the 8.2 per cent forecast in last January's budget.

Any hopes of cuts in Ireland's tax rates, among the highest in Europe, or a relaxation in the Government's economic austerity programme were firmly squashed by Mr McSharry.

"We are still living beyond our means. The national debt is now in excess of I£24bn and it has to be reduced. The benefit of this extra money is that we have to borrow I£400m or I£500m less this year. The net benefit of that is the saving of about I£40m or I£50m in interest repayment. But that is out of a total of up to I£2bn in debt service payments" said Mr McSharry.

The Minister for Finance, known as "Mac the Knife" following his implementation of a wide range of government cuts, is expected to leave Ireland within the next few weeks to take up a largely tax-free post in Brussels as Ireland's next EC Commissioner.

Critics say the tax amnesty figures show the Government has clearly miscalculated the amount of tax avoidance which has been going on throughout the economy.

Over the past few weeks Irish banks and building societies, particularly in country areas, have been reporting outflows of funds.

In some cases, substantial amounts of money were paid to the Revenue authorities: one single payment of I£500,000 is said to have been made.

Politburo endorses expansion of trade

Continued from Page 1

on the flexible combination of national interests with further extending the independence of enterprises on the foreign market, the control in developing their foreign trade activities, and the stage-by-stage convertibility of the rouble," the announcement says.

While the priority will be for developing trade with other Socialist countries within the Comecon group, the result of "perfecting the economic mechanism of socialist economic integration" should be "the formation of a market of Comecon member countries."

"It is envisaged to develop new forms of co-operation – direct ties between enterprises and organisations of the USSR and (fellow Socialist) countries, the setting up of joint ventures, international enterprises and organisations."

Publication of the Politburo decision coincided with a prominent article by Mr Lev Yermin, the deputy premier of the Russian Federation, the biggest USSR republic, calling for increased trade efforts by Soviet organisations.

He admits that Soviet joint venture proposals have not met with great enthusiasm from foreign partners. "Some entrepreneurs relate with distrust to these new forms of co-operation," he states, "believing that in a system of centralised planning, it is difficult to co-ordinate these two types of property ownership."

The deputy premier criticises excessive Soviet bureaucracy for discouraging Soviet business trips abroad – pointing out that nine times more foreign businessmen and women visit the Soviet Union than vice versa.

Mr Yermin, chairman of the Agro-Industrial committee of the Russian federation, says that a decision has been taken to step up the sale of licences for Soviet technology abroad,

Algerian police vow to suppress riots

Continued from Page 1

only became actively involved in the current wave of violence last Friday. Some of them are armed with guns, which has provoked a harsh response from the security forces. Earlier in the week the mostly young people who were demonstrating were armed only with stones and the security forces had strict orders to use the minimum force.

In Oran on Saturday, the Sunday editions of all newspapers carried a communiqué from the military command that said conditions were returning to normal but promising tougher law enforcement.

"The military command charged with restoring law and order intends to intensify its efforts further in order to restore in the shortest possible time normality in all state-run institutions, in all educational, social and professional fields," the communiqué said.

All emergency measures, such as a nightly 10pm to 7am curfew, remained in force.

The Minister of the Interior, Mr El Hadi Khediri, confirmed on Radio Algiers at the weekend that the rioting had spread to other cities. The authorities were determined to "use all methods to re-establish calm."

In the western town of Mascara, residents said four people were killed and 10 wounded in clashes on Saturday.

Meanwhile, hundreds of Algerians living in France marched in Paris yesterday to express support for the rioters.

Most of the protests have been aimed at government-owned shops and offices, especially buildings associated with the National Liberation Front, which has ruled Algeria since independence in 1962.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	24	75	Dubrovnik	S	20	68	Malta	S	26	79	Rhodes	F	25	77
Algiers	S	31	88	Edinburgh	C	10	50	Manchester	C	10	50	Rio de J'o	F	29	84
Amsterdam	R	13	55	Faro	R	23	73	Manila	R	29	84	Rome	F	25	77
Athens	F	20	77	Florence	F	20	68	Melbourne	C	18	64	Salzburg	S	17	63
Bahrain	F	34	93	Frankfurt	C	10	50	Mexico City	-	–	–	San Francisco	S	11	52
Bangkok	C	31	88	Funchal	S	23	73	Miami	C	28	82	Seoul	S	23	73
Barcelona	F	24	75	Geneva	C	14	57	Milan	S	20	68	Singapore	R	31	88
Beirut	F	27	81	Gibraltar	F	23	73	Montreal	C	12	54	Stockholm	C	11	51
Belfast	F	10	50	Glasgow	R	10	52	Moscow	C	15	59	Strasbourg	S	22	72
Belgrade	S	17	63	Guernsey	C	13	55	Munich	S	15	59	Sydney	S	23	73
Berlin	R	11	52	Helsinki	F	11	52	Nairobi	F	27	81	Taipei	-	–	–
Biarritz	S	25	77	H. Kong	F	27	81	Naples	S	24	75	Tangier	C	28	82
Bombay	F	30	86	Innsbruck	S	17	63	Nassau	R	28	82	Tel Aviv	S	27	81
Bordeaux	S	25	17	Inverness	R	09	48	New Delhi	F	33	91	Tenerife	F	26	79
Brussels	R	15	59	Islamabad	C	26	79	New York	C	07	45	Tokyo	C	21	70
Budapest	C	15	59	Istanbul	F	19	66	Nice	S	21	70	Toronto	C	12	54
B. Aires	R	20	68	Jakarta	C	34	81	Nicosia	F	30	86	Tunis	S	27	81
Cairo	F	29	84	Jersey	R	14	57	Oporto	S	18	65	Valencia	S	25	77
Cape Town	C	16	61	Jo'burg	F	29	84	Oslo	R	10	50	Venice	F	17	63
Caracas	R	25	77	Lima	C	19	66	Paris	C	13	55	Vienna	C	18	65
Casablanca	S	24	75	Lisbon	C	23	73	Peking	S	26	79	Warsaw	F	14	57
Chicago	F	18	64	London	R	13	55	Prague	R	12	54	Washington	S	05	41
Cologne	R	16	61	Los Angeles	F	31	88	Reykjavik	F	0	32	Zurich	S	18	66
Copenhagen	R	14	57	Luxembourg	C	15	51								
Corfu	S	23	73	Madrid	F	27	81								
Dallas	S	14	57	Majorca	F	25	77								
Dublin	C	12	54	Malaga	F	25	77								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

First Boston merger plan

Continued from Page 1

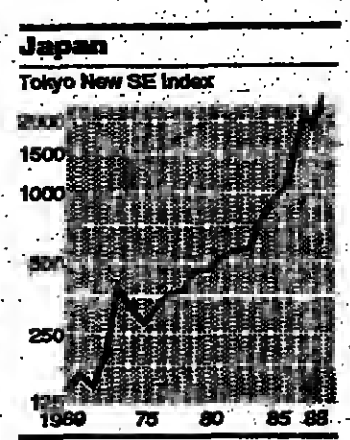
ering among its shareholder firms. Instead of concentrating on new business, top management were devoting time to internal politics and to sorting out how to divide the profits.

On top of that, CSFB was increasingly finding itself battling head to head for business with First Boston. With the removal of controls on capital movements around the world, potential borrowers could no longer be expected to limit themselves to their domestic markets.

THE LEX COLUMN

The case for the Tokyo market

There is a distinctly nervous air about the Japanese stock market these days. Even the big Tokyo brokers, scarcely bearish by nature, confess to bouts of short term pessimism. Indeed, though the broader framework looks healthy enough – inflation worries subsiding, the discount rate at a post-war low, and earnings forecasts being revised up again – the market faces a tough period. There is this month's £13bn NTT sale, now in the pre-selling stage and going badly; there are next month's US elections; and perhaps most important, there is the surely imminent death of the 87-year-old Emperor. This is unknown territory. The Tokyo exchange will certainly close for a day, perhaps two. On reopening, the market is duty-bound at least to dip as a matter of courtesy. Thereafter, much depends on the decorum which the broking houses have already been officially instructed to observe. Since last October the market, deprived of the automatic gains of the previous five years, has been unusually dependent on brokers' ramps, the classic instance being the steel sector. It is widely expected that such bursts of enthusiasm will count as bad form for weeks after the Emperor's death, and maybe for months. The consensus is that this may at worst result in a 10 per cent correction by the turn of the year, and that the real economy will then reassert itself. But this brings us back to the old conundrum – how to establish fundamental value for the Japanese market as a whole. Recent events in Taiwan are a reminder that economic growth is not enough; the question is what rate of growth the market is discounting.



Wrong grounds

It is now clear that those outsiders who argued a year ago that Tokyo was not expensive did so on the wrong grounds. The basic argument was in two parts: that the Tokyo market could not fall because the Japanese system would not let it, and that Japanese p/e ratios were in any case misleading because overstated. The first has had an especially pernicious effect; it is now widely believed outside Japan that the October crash was artificially averted, and is therefore still stored up waiting to happen. But the Tokyo market fell by 21 per cent in the crash, which is quite enough to be getting on with. The psychologically important event – the economic declaration of independence, as it were – came not in resisting the crash, but in recovering from it. The institutions are still rationally confident that they can resist short-term weakness; foreign holders, the most volatile component of the market, have around 3.5 per cent of the total, and Nippon Life accounts for more than that on its own. But no one supposes that the system, however powerful, can buck the trend. Tokyo is now on a footing with Wall Street and London – bruised from a trying year, and wondering what comes next.

P/Es do not count

The argument about p/e ratios is more curious again. With perseverance and ingenuity, it is possible to restate Japanese earnings in a way which makes the market cheaper than Wall Street. But all this is strictly for foreigners. P/e ratios became important in Japan 20 years ago, when US investors first moved into the market, but fell from use in the early 1980s as the bull market made them increasingly meaningless. A recent popular variant for foreign consumption is the gap between the earnings yield on equities and the actual yield on bonds; like the yield gap in London, this is comforting because it was well above its historic range just before the crash, and is now back within it. But besides being intellectually dubious, the measure is scarcely heeded by Japanese investors themselves. What does appeal to investors, and indeed matters profoundly, is the liquidity theory. Restated as the weight of money argument, this has little appeal to those who have fallen for it in the past in New York or London. But in the Japanese context, it is undeniably persuasive. As the economy slows down, it is entering a mature, cash-generative phase. Ten years ago, the monetary assets of Japanese individuals were equal to one year's gross national product; they are now equal to two, and rising. All this money, says the theory, has to go into equities, and Japanese equities at that. Property is too dear – indeed, has already peaked this year – and bonds do not provide the return investors are used to. Foreign equities are not the answer; even if the Japanese institutions knew how to buy them, they would have no incentive because of the strength of the yen – which, after all, has lost the insurance companies $30bn over the past two years in US Treasuries. Demand for Japanese equities is therefore guaranteed; and with the supply of new equity limited by the natural prudence of the Japanese corporations, the market has nowhere to go but up. If it all sounds too good to be true, remember that it has worked for 20 years; if a market rises continuously against the apparent fundamentals, the fundamentals have been wrongly identified.

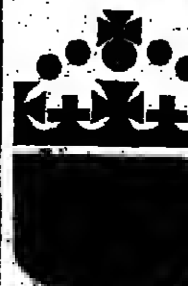
Social change

None of this is foolproof. There are basic changes afoot in Japanese society, reaching beyond the fact that the industrial miracle – and the great days of export – are probably over. The Tokyo brokers are currently fond of arguing that the Japanese consumer, 30 years behind the sophisticated societies of the US and Europe, is tired of hard work and austerity and wants a share of the gravy. This is meant as a bull point for leisure and infrastructure stocks; but, if considered in terms of the Japanese propensity to save ... it is perhaps the ... bearish point of ... not yet awhile. In the ..., it is hard to quarrel ... that, short-term ... apart, the ... essentially safe. The snag is that, in the absence of fundamental yardsticks, it will be tricky to judge when the short-term weakness has run its course. If it all comes back to liquidity, it also depends crucially on that liquidity being bottled up in Japan. That in turn depends largely on currency; so, for foreign investors especially, the motto is: watch the yen.

FINANCIAL TIMES
COMPANIES & MARKETS
Monday October 10 1988

INSIDE

Royal progress in America



The news that Britain's Royal Insurance is spending $110m to buy Maccabees Mutual, a Detroit-based life insurer, represents something of a landmark for the US insurance industry. For Maccabees is planning to turn itself from a mutual to a shareholder-owned company as a prelude to the takeover, a highly unusual move. Page 30

GrandMet breaks credit records

The $5.3bn bid just launched by Grand Metropolitan, the British food and drinks group, for Pillsbury, the US food conglomerate, involved a $5bn three-year credit, the largest international bank credit ever raised for a corporation, and $2bn of interest rate caps. Stephen Fidler looks at how the corporate finance package was put together. Page 26

Antidote to pay packet jealousy

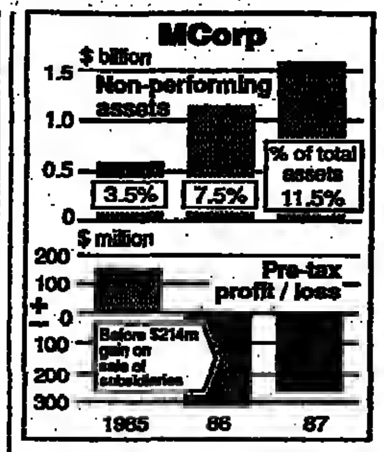
How can a company chairman cope with the green-eyed monster of jealousy when he discovers that his merchant bank advisor is paid substantially more than him? The answer, according to a book on "salary envy" discussed in the Business Column, is by psychological rationalisation: bankers deserve so much money, runs the myth, because they lead such gruelling lives. Page 42

New life for Eurosterling bonds

The fixed-rate Eurosterling bond sector has just seen its first issue in almost a month, producing steady demand throughout continental Europe. Benelux countries, where several banks have published recommendations to buy sterling instruments, was particularly enthusiastic. Dominique Jackson examines the prospects for a new wave of corporate borrowers in the Eurosterling sector. Page 26

Market Statistics

Principal Companies Covered



Dallas: Home of MCorp and problematic property loans

Then there were none

Anatole Kaletsky explains how MCorp joined the list of Texas banking failures

With Friday's news that MCorp, the second largest bank in Texas, had asked for government financial assistance, the state's banking industry has set an unenviable record. Apart from two groups which managed to sell out before their full troubles became apparent, every major bank and savings institution in Texas has now effectively failed.

The fact that MCorp, which was widely regarded as the best managed and most conservative bank in Texas, had to concede defeat in its battle for independent survival was strictly speaking not a surprise.

The vultures had been circling since the summer, when First RepublicBank, the biggest bank in Texas, was finally closed by Federal regulators and sold to NCNB Corp of North Carolina.

Although MCorp's management, and even some of the analysts on Wall Street, insisted until the end that this bank would stand out as an honourable exception in the buccaneering history of Texas banking, investors had long since voted with their feet. MCorp's share price, which fell from $1.50 to $0.75 on Friday, had been signalling for several months that shareholders had given up hope of salvaging anything worthwhile from their investment in the bank.

But even if it caused no surprises in the stockmarket, the failure of MCorp could have a major impact on the US banking industry – perhaps even bigger than the collapse of First RepublicBank three months ago.

The MCorp affair demonstrated, firstly, that regulators were taking a much more sceptical view of the true value of troubled real estate loans. This toughening of regulators' attitudes appeared, in fact, to be the proximate cause of MCorp's troubles.

The Federal Deposit Insurance Corporation ended up having to offer NCNB up to $4bn to take First RepublicBank off its hands – double what the regulators expected to pay on the basis of their previous knowledge of FRB's affairs.

The FDIC and the Comptroller of the Currency, jointly responsible for supervising both MCorp and FRB, were determined not to get caught out a second time. Thus, when the Comptroller's examiners were sent to MCorp in July to perform a regular annual audit, they were under orders to apply more rigorous standards to doubtful real estate loans than in the past.

For MCorp, which had 34 per cent of its $12.2bn loan portfolio in real estate (a relatively moderate proportion by Texas standards), the results of this "closer focus" on property values were devasting. At the end of the second quarter, MCorp already had $1.1bn of real estate loans, nearly a quarter of its property portfolio, classified as non-performing or foreclosed, and had hinted that a further loss of $200m or so in the third quarter would result from further charge offs and provisions.

This, however, was not nearly sufficient to satisfy the examiners. MCorp said on Friday that, as a result of asset revaluations following the Comptroller's examination, it would post a loss of around $525m in the third quarter.

This would reduce its total equity to around $300m – less than 2 per cent of assets, compared with the minimum regulatory requirement of 6 per cent. These simple figures spelt checkmate for MCorp and Mr Gene Bishop, its resourceful chairman.

Mr Bishop had already raised $630m to meet the bank's previous capital deficiency by selling off MCorp's two non-banking "crown jewels" – MNet, a huge credit card service, and MTech, a data processing and automated teller business.

He also realised that, in an environment when the FDIC and the Federal Home Loan Bank Board were handing multibillion dollar government dowries to any outside investors willing to look at a Texas banking institution, there was no hope of raising new equity, or even subordinated debt. MCorp had no choice but to seek Federal assistance.

Unfortunately for Mr Bishop and MCorp's shareholders, there may be a similar inevitability to the FDIC's decisions. As a matter of principle and precedent, there will be great pressure on the government to wipe out the shareholders' investment and remove the current management as a precondition for doing any deal.

Assuming that the FDIC proves as tough as expected, the combination of its ruthlessness towards shareholders and management and its new scepticism with regard to property loans is going to send signals to other banks all over the country to start applying sharper standards to mortgages and construction loans.

However, the implications of MCorp's demise could ultimately be felt far outside the real estate sector. The collapse of the last independent bank in Texas could be the last nail in the coffin of US bank regulation and deposit insurance in its present form.

While MCorp survived, it was just possible to argue that there was nothing systemic about the crisis in the Texas banking and thrift industry – a debacle which will ultimately cost the American public, either as taxpayers or as bank depositors, somewhere between $50bn and $100bn. But when every bank in a region collapses without exception, there can be no disputing that something in the structure and regulatory framework of the whole industry must be amiss.

One aspect of the problem is obviously the interaction of government deposit insurance and deregulated, entrepreneurial lending, designed to maximise short-term profits with little regard to longer term risks. Another is the geographical concentration of risk, mandated by anachronistic laws against interstate banking.

Congressional leaders, appalled by the escalating costs of the S&L crisis and incensed by the insouciance of Administration officials towards bank and thrift bailouts, have already put bank regulation and deposit insurance at the top of the political agenda after the November elections. Judging by the experience in Texas, almost any change they proposed would be an improvement.

Dangers of the echo chamber strategy

By Anthony Harris in Washington

THE BATTLE of the Pygmies which passes for a US Presidential election goes on getting nastier. On the Republican side this seems to have been written into the script from the start; the Vice-President entered the campaign with such a low public reputation that his managers have concentrated on trying to generate an equal contempt for the almost unknown Governor Dukakis.

Mr Dukakis ploughed for some weeks with his worthy but boring message of bureaucratic competence, which is what he genuinely does seem able to offer; but as this approach has failed, he has been panicked into joining Mr Bush in the gutter. He is not much good at it, though. Mr Bush has an astonishing record of proved incompetence: he seems at some stage to have been in charge of half the major crises still facing the US, from drugs to the collapse of the savings and loan movement. The attack on him, though, is concentrated almost entirely on his choice of a running mate.

This is all pretty worrying, unless you believe that the lucky streak which has brought nearly six years of growth, and now a steady improvement in the so-called twin deficits, will last for ever; for it seems clear the next President will be limited to muddling through, whoever wins.

If it is Mr Bush, he will come to office with almost nothing by way of a mandate – half the issues he discusses, from the pledge of allegiance to school management, are not the concern of the Federal government at all. This can only increase his difficulties with a hostile Congress – not a promising way to approach difficult choices. Such choices cannot be avoided, even if the basic US adjustment goes on smoothly, because budget-making is going to be a blinding headache for some years.

Mr Dukakis would have a somewhat clearer programme, and he has potential friends on Capitol Hill; but very few of them have yet joined in the campaign. That suggests that he would have the same problems in working with the legislature which plagued President Carter and indeed President Kennedy, so his programme would still be in trouble. On the showing of the campaign, this does not look any great loss, but that is as much a judgement on the campaign than on the candidates; the strategy on both sides is to avoid talking about the issues.

On reason for this is the experience of the Mondale campaign four years ago, confirmed by the primary campaign of ex-Governor Babbitt. Everyone knows it will be next to impossible to reduce the Federal budget deficit without some fairly hefty tax increases – a conclusion confirmed only this week by the Business Council, the conference of the most important American chief executives. The two candidates, however, are thought to have proved that it is political suicide to admit this simple truth in public.

What we are seeing, though, is worse than evasion. Both candidates are taking positions which they would not support in a private conversation, because they are allowing their speeches to be written, in effect, by their opinion pollsters. This is not leadership but followership.

Mr Bush harps on prison furloughs and the flag because these issues have played well in polls; privately he is a humane and sophisticated man. Mr Dukakis is attacking Senator Quayle, and trying to arouse alarm about foreign investment, for exactly the same reason, despite the fact that he is even more inexperienced than Mr Quayle, and that as a Governor he has done his share of huckstering to attract these same investors.

This new Democratic thesis is bad economics, and probably bad politics too. It seems to have been triggered by a study which monitored the reactions of a sample audience at the vice-Presidential debate, second by second. This showed that Senator Bentsen, Mr Dukakis's running-mate, achieved his biggest electronic twitch when he talked about foreign investors. However, Rep Richard Gephardt played the same tune in the Democratic primaries, and his experience suggests that the fear of foreign investors is an instinctive twitch rather than anything deep-seated.

The bad economics was neatly demonstrated by Mr Dukakis, when he launched his own attack in a motor components factory which happens to be Italian-owned, though he did not know it. The Moog concern was taken over, and no doubt owes a good deal of its success to Fiat technology, and to Fiat-financed expenditure on plant and development.

Foreign takeovers are not done on the cheap, as the Democrats argue – try that on the shareholders of Midland Bank, who bailed out the shareholders of Crocker at such expense, or of Pillsbury, the big US food group, who have just seen their holdings virtually double in value thanks to a bid from Grand Metropolitan of the UK. These deals are done because the US looks a very attractive place to do business, thanks to a realistically-valued dollar. The new proprietors usually have to spend heavily to justify the price they paid in the first place.

Many other plants have been built from scratch by foreign owners, who thus avoid the risks of overpriced takeovers. These include the Japanese car plants which took a 10th of the market for US-built cars last month – nearly double the share they held a year ago – and also build some leading-edge US-badged models, such as the Ford Probe. Without such direct investment the US trade balance would be noticeably weaker even at this stage, and so would the current boom in investment in new plant. The benefits to the US economy will be much bigger before long.

Governor Dukakis certainly knows that he is talking nonsense; he really does understand business issues of this kind. Indeed, he has recently been attacked by the United Shareholders of America, a pressure group financed by Mr T Boone Pickens, as a a management man, a lackey of the Business Round Table, and thus an enemy of corporate raiders, asset-strippers, and others concerned to enrich shareholders. This is probably the one really accurate charge now being made against him, but the Bush campaign is unlikely to take it up.

Does it matter if the candidates campaign on slogans which they privately despise? In one sense it does not; they are unlikely in office to sponsor legislation which they regard as damaging. It cannot be guaranteed, though, that there are no demagogues in Congress who might be willing to remind them of their rhetoric. More important, though, is the lack of leadership on both sides.

The next President will confront the real problems of the future from a position of weakness, and any unpleasant cures will leave the more simple-minded voters feeling cheated. The more thoughtful already know that this is a campaign of evasion, and there is already talk of reforming the electoral process

Economics notebook

Labour looks to the EMS

ONE OF the most interesting arguments over the economic policy that Britain's Labour Party opposition will offer at the next general election barely surfaced in the set-piece conference debates in Blackpool last week.

Amid all the talk of managing *rather than* dismantling the market economy and of ditching the old Morrisonian approach to public ownership, no-one focused too closely on the broader thrust of macro-economic policy.

It was left to Mr Brian Gould, Labour's trade and industry spokesman, to raise the issue at a sparsely attended fringe meeting in the faded Art Deco splendour of the town's Opera House.

Mr Gould, who is seen generally as one of the key "modernisers" in the leadership but remains decidedly unenthusiastic about Europe, delivered a passionate speech against full membership of the European Monetary System.

In the process, he provided a glimpse of the internal debate within the shadow cabinet over how it can formulate a credible anti-inflation strategy before the election.

As the detailed second stage of the party's policy review gets under way, Mr Gould is anxious to prevent Mr John Smith, the shadow chancellor, from bouncing the Party into a pledge to take sterling into the EMS.

Mr Smith and Mr Neil Kinnock, the Labour leader, may see several attractions in such a commitment.

It would buy the Party respectability in London's financial markets. The constant threat facing a Labour government is that nervous markets may destabilise its economic policies even before they are put in place.

There is also a wider political appeal. British voters are far less sensitive to the threat of inflation than, say, those in West Germany, but they will want assurances that there will be no return to the prices chaos of the 1970s.

Some of Mr Kinnock's advisers see a more fundamental argument in favour of membership. Governments of all political hues have come to recognise the damage inflicted by wild swings in exchange rates. If sterling is not to be left outside a new system of managed rates it has to be part of the EMS.

All of this is anathema to Mr Gould. His view is that a Labour government should have targets for the real economy.

It should not trap itself by fixing financial targets which the markets will insist it adhsres too. Above all, it should not make the mistake of previous Labour governments and commit itself to an overvalued pound.

He recalls the self-imposed strait jackets of Labour governments in the 1960s and 1970s, which led to the "betrayal" of policies designed to ensure full employment.

The suspicion must be that Mr Gould would like to keep open the option of a significant sterling devaluation if Labour wins and that he would be fairly relaxed about some acceleration in inflation.

There are two issues, however, that he leaves unresolved. There is no guarantee that a depreciation in sterling's nominal value would translate into a real improvement in competitiveness rather than simply into higher inflation.

Similarly, the absence of formal targets for the money supply or the exchange rate would hardly ensure that financial markets did not derail targets for growth and employment.

Labour, like Mrs Thatcher, may eschew full EMS membership, but it will then have to come up with a convincing alternative case that it will not let inflation run out of control.

Spending

Mr John Major, the Chief Secretary to the Treasury, may not have much time to follow the proceedings at this week's Conservative Party Conference in Brighton.

Instead, he will be trying to persuade his free-spending cabinet colleagues that they should trim their claims for extra cash next year.

One of two may be convinced by Mr Major's argument that the British Government can hardly go on a spending spree when it just put up interest rates to 12 per cent to curb private sector consumption.

But Friday's acknowledgement by the Treasury that it is setting up the Star Chamber to be the final arbiter of outstanding disputes suggests that a lot more tough bargaining will be needed if the largest bids are to be scaled back.

Claims from the Departments of Health, of Social Security and of Defence look particularly tough. Mr Douglas Hurd, the Home Secretary, may also want to smooth his traditionally rough ride at the Conference by holding out for extra cash for the prison-building programme and the police.

Against that background, the betting in Whitehall is that Mr Major will have to cede an additional £2bn to £3bn on top of the £167bn already pencilled in for 1989/90. With this year's public sector surplus on course to top £10bn, that should not be disastrous.

Philip Stephens

THIS WEEK

THURSDAY'S US trade figures are likely to be the focus of attention in financial markets, showing whether recent progress in correcting the long-running deficit has continued.

The merchandise trade deficit in July, published last month, was $9.5bn (£5.6bn), after adjustment for seasonal variations. This was better than expected and much less than in the previous month.

However, this week's figures for August is not expected to be as encouraging. The consensus of analysts' forecasts, compiled by MMS International, the financial research company, is for a $11.5bn deficit.

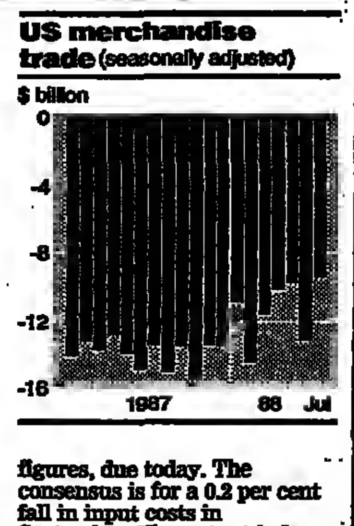
A pointer to US inflation trends and the strength of the economy will come from a series of figures released on Friday, which could intensify speculation about a tightening of US monetary policy.

Retail sales and industrial production figures for September are expected to reflect strong economic growth. The consensus is for a 0.5 per cent rise in retail sales and a 0.3 per cent rise in industrial output. The producer price index will show factory gate prices in September. The consensus is for a 0.4 per cent rise, against 0.6 per cent in August.

UK financial markets are likely to listen carefully to the economic assessment of Mr Nigel Lawson, the chancellor, when he addresses the Conservative Party Conference in Brighton on Thursday.

For the retail price index in September, released on Friday, the market consensus is for a rise of 0.4 per cent. This would push the annual inflation rate to 5.8 per cent, after 5.7 per cent in August.

Average earnings figures for August on Thursday are expected to show the underlying rate of increase at 9 per cent, unchanged from July. A further indication of inflationary pressures will come from producer prices figures, due today. The consensus is for a 0.2 per cent fall in input costs in September. The output index, covering factory gate prices, should show a 0.4 per cent rise.



In Japan, the main focus of interest among statistical announcements will be the machinery order figures for August, due on Thursday. In the wake of the Bank of Japan sounding the alarm over excessive capital spending by manufacturing industry, analysts will be interested to see if orders have peaked.

Also on Thursday, Japanese customs-cleared trade figures for September are likely to show that exports are still growing, thus slowing the rate of decline of the surplus.

Other statistics and events due this week (with MMS International consensus in brackets) include:

Tomorrow: UK first issue of Treasury bills denominated in European Currency Units.

Wednesday: Bank of England quarterly analysis of Bank advances. US Treasury seven year note auction.

Thursday: US monthly monetary aggregates for September. 10-day car sales. UK unemployment in September (40,000 fall, seasonally-adjusted), vehicle production in September.

Friday: UK industrial output in August (0.1 per cent rise)

INTERNATIONAL CAPITAL MARKETS

CORPORATE FINANCE

GrandMet utilises interest rate caps in bid to snare Pillsbury

GRAND Metropolitan had been stalking Pillsbury, the US food conglomerate for which it launched a $5.23bn hostile bid last week, for about 12 months before making its move. The management decision to go ahead, subject to board approval, was made in August.

What follows is an account as told mostly by Mr Michael McCann, GrandMet's group treasurer, of the financing which includes a $6bn three-year credit, the largest international bank credit ever raised for a corporation.

The first move was to buy $2bn of interest rate caps, placing a ceiling of 9 per cent on the interest rates on the floating-rate bank financing yet still allowing the company to benefit if rates fell.

Mr McCann, who joined GrandMet in March from Trafalgar House, to which he went from Ford Europe two years earlier, says he is mystified why more corporate treasurers do not use interest rate caps.

"We could have used swaps or interest rate hedging techniques, but the market is not very liquid out to three years. Since there was also the possibility that we might not get Pillsbury, caps could be easily resold into the market while unwinding swaps could have been disastrous.

"Caps were cheapest and offered most flexibility. Basically, it's the deepest market."

The company used intermediaries, securing agreements with a handful of counterparties – the largest of which took $500m – and its name never emerged into the market. Interest rates on a further $850m of its liabilities were to be fixed at a weighted average 8 per cent by existing interest rate swaps, while $500m of fixed-rate debt with a weighted average yield of 9.6 per cent would fix much of the rest.

Next came the bank financing. The Pillsbury deal was dependent on the sale by GrandMet of its Intercontinental Hotels division to Seibu Saison of Japan.

Net proceeds from the sale were to be £1.2bn ($2bn), but in September GrandMet did not know when it would get hold of the cash.

In the event, that looks likely in December. In the meantime, however, the company needed to have a new bank financing for the full amount of the bid. The company's existing credit lines, including a $1bn multiple option facility, could not be used because they fell foul of margin regulations in the US.

Of this, some $3.75bn was in place by early September, arranged through the Big Four UK clearing banks: $1bn each from National Westminster, Lloyds and Barclays and $750m from Midland, which appears to have been limited by Bank of England rules which restrict loans to any one borrower to 25 per cent of capital.

The deals were struck with senior officials at each bank in an effort to keep the story leaking out and the Bank of England was also kept informed. When Mr McCann visited the banks, efforts were made to ensure that he would not be recognised.

GrandMet insisted on arranging the financing, and even the documentation for the deal, which was eventually agreed with NatWest after "robust" discussions.

The company did not believe it could extend this group of banks until after the deal had been announced, mainly because of the possibility of a conflict of interest for institutions which already had corporate relationships with Pillsbury.

But first thing last Tuesday, Mr McCann was in the offices of Sumitomo Bank, which along with a small group of other banks had the GrandMet financing proposal on their desks by 7.30am.

Twenty minutes after he left Sumitomo, as he was sitting in the offices of a German bank, he received over the portable telephone an offer from the Japanese bank of $750m.

By the afternoon, Mr McCann had received a flood of offers, many unsolicited, from banks totalling $4bn. Deutsche Bank, Commerzbank, Swiss Bank Corporation and Société Générale were each committed for $375m each, while Morgan Guaranty waited until Wednesday before giving the go-ahead.

The financing will pay an interest rate margin of ⅛ percentage point and a commitment commission on the undrawn portion of the financing of ⅛ per cent. Fees of ⅛ per cent are payable on amounts drawn above $4.5bn. NatWest will syndicate the financing more widely this week.

The speed of the deal has confirmed Mr McCann in his views about the importance of bank relationships, but the financing points to other important developments. These include:

- The growing muscle of corporate treasury departments, such as GrandMet Finance, which was created in 1974 and now handles almost $20bn annually in foreign exchange transactions alone. Banks are uncertain already about whether to treat them as competitors or customers, and some corporate treasurers may be thinking about tapping retail deposit sources.
- The willingness of banks to jump in to tightly-priced fully-drawn corporate financings, even in a potentially hostile bid.

Stephen Fidler

INTERNATIONAL BONDS

Ford points way to Eurosterling comeback

THE EMERGENCE last week of the first fixed-rate Eurosterling issue for some time – a five-year £60m issue for Ford Credit Funding via Hambros – has prompted speculation that the corporate sterling primary market may be set for a resurgence as the tightness of gilt-edged stock supply becomes more apparent.

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	2,442.4	55.6	250.0	10,508.7
Prev	2,673.2	0.0	428.0	9,902.9
Other	1,830.4	14.8	789.0	1,604.3
Prev	1,438.2	10.7	629.9	2,280.6
Secondary Market				
US$	17,072.9	960.1	5,455.8	8,348.6
Prev	11,556.1	889.5	5,709.4	6,216.6
Other	15,208.6	1,276.7	6,254.5	24,153.4
Prev	15,649.5	1,052.6	4,499.5	22,289.2

	Cedel	Euroclear	Total
US$	12,988.3	32,093.8	45,082.1
Prev	8,770.3	28,605.4	37,375.7
Other	22,653.6	28,478.1	51,131.7
Prev	20,485.1	27,365.1	47,850.2

Week to October 6, 1988 Source: AIBD

Among a handful of issues reported to be imminent is a substantial deal for a UK building society, although it failed to emerge last week.

With a return of 2.9 per cent in US dollar terms, the UK government bond market was among the top three performing world markets during September, according to Salomon Brothers. Canada was top with 4.4 per cent and Japan second with 3.4 per cent. Investors have been attracted by the high yield base of sterling-denominated bonds.

Continental retail accounts have been active buyers of the currency, encouraged by the pound's resilience in the face of lower oil prices – a sign perhaps that it has successfully shaken off its petro-currency image.

Last week's apparent intensification of the Bank of England's buying-in programme clearly helped to underpin gilt prices, which have now firmed by about 2¾ points over the last two weeks.

The market consensus appears to be that current levels are being maintained more by technical factors than by fundamentals. Yet the Eurosterling sector has marginally underperformed government bonds of late, failing to react with anything like as much conviction to last Friday's US jobs data, which sent gilts up by, on average, more than a half point.

Consequently, they look fairly cheap in relation to gilts and the sector could be in line for some strong buying, particularly from gilt holders who, feeling their market could fall back over the weeks, decide to switch into Eurobonds for some protection.

The current steep inversion of the sterling yield curve presents an excellent opportunity for borrowers to reduce their funding costs, particularly over the longer term.

Swap rates, while far from historical optimum levels, are now workable with decently rated corporates probably able to raise funds at around ¼ point under the London interbank offered rate, with top credits able to attain ⅜ point below and better.

However, the market appeared to be divided on the Ford issue and a couple of syndicate managers at other houses felt the deal had not been the ideal one with which to kick off a new round of Eurosterling issues.

One manager said: "We would have been able to talk about doing Eurosterling with a little more conviction to our borrowers if this had perhaps been a different name or price."

The yield spread at launch was at 46 basis points, which was deemed a little on the tight side by some dealers although it represented three to four basis points' premium over seasoned issues from the same borrower.

Some market analysts felt a rush to the sector by corporate borrowers would be premature. Corporate profitability and cash flow generally still appear healthy and the building societies in particular are reported to be flush with funds.

However, institutions such as the top building societies are more inclined to borrow when conditions are favourable, rather than in direct response to any particular cash flow needs.

Recent moves by Mr Nigel Lawson, the Chancellor, to scrap the £200m restriction on non-corporate issues in the sector has raised market hopes for a large sterling issue by a sovereign or supranational body.

There seems to be no doubt that such an issue would be warmly received – particularly if it were to be a longer-dated issue – given the paucity of supply in the long end of the gilt market.

Dominique Jackson

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Towa Real Estate◆	100	1992	4	5	100	Nomura Int.	5.000
Mitsubishi Plastics◆	100	1992	4	5	100	Nikko Secs (Europe)	5.000
Nakanogumi Corp.◆	40	1992	4	5⅞	100	Yamaichi Int.(Eur)	5.875
Shikoku Chemicals◆	50	1992	4	5⅜	100	New Japan Secs.	5.375
Kotobukiya Co.◆	100	1992	4	5	100	Nikko Secs (Europe)	5.000
Ryoden Trading◆	55	1992	4	5⅜	100	Daiwa Europe	5.375
British Telecom Fin.◆	250	1998	10	9⅛	101⅞	IBJ Int.	9.120
Kobori Juken Co.◆	100	1992	4	5	100	Yamaichi Int.(Eur)	5.000
Kobe Steel◆	500	1992	4	(5)	100	Nomura Int.	★
Korakuen Co.◆	100	1992	4	(5)	100	Yamaichi Int.(Eur)	★
Bridgestone Corp.◆	300	1992	4	(5)	100	Nomura Int.	★
Sakai Chemical◆	70	1992	4	(5½)	100	Nikko Secs (Europe)	★
Met'polis of Tokyo(g)◆	175	1998	10	9¼	99⅞	Goldman Sachs	9.270
CANADIAN DOLLARS							
Royal Bank of Canada◆	100	1990	2	10⅞	101⅞	RBC Dominion Secs.	9.977
AUSTRALIAN DOLLARS							
PISA◆	50	1993	5	13½	100⅞	Kredietbank Int.	13.250
Montreal Trustco◆	50	1991	3	14¼	101¾	County NatWest	13.503
IBM Australia Credit◆	60	1991	3	13⅞	101⅝	Westpac Banking	13.185
Toyo Trust Australia◆	100	1993	5	(i)	100	Man. Hanover	-
NEW ZEALAND DOLLARS							
Svenska Handelsbanken◆	60	1991	3	14	101⅞	Hambros Bank	13.203
D-MARKS							
Ryobi Ltd.◆	100	1995	7	3	100	DG Bank	3.000
Heraeus Int. Finance◆	75	1998	10	6⅜	100	Commerzbank	6.375
DG Bank (Lux)★★◆	100	1992	4	5½	100	DG Bank	5.500
Banesto Finance◆	200	1993	5	2½	100	Morgan Stanley	2.500
Indonesia◆	300	1995	5	6⅜	100	Commerzbank	6.375
SWISS FRANCS							
Lion Corp.§★★◆	150	1993	-	½	100	Credit Suisse	0.500
Pokka Corp.§★★◆	100	1993	-	½	100	Credit Suisse	0.500
Haneda Hume Pipe§★★◆	30	1994	-	1½	100	Handelsbank NatWest	1.500
Sioko Kogyo Co.§★★◆	30	1993	-	½	100	Handelsbank NatWest	0.500
Kanematsu Elec.§★★◆	50	1994	-	½	100	Warburg Sodific	0.500
Honshu Paper Co.★★◆	100	1993	-	1⅞	100	Credit Suisse	1.825
Bond Int.Gold Cay.(b)	100	1995	-	(4)	(100)	TDB Amex Bank	★
Gestec Services◆	60	1993	-	½	100	SBC	0.500
FAI Fin. Services◆	160	1998	-	5¼	99	Warburg Sodific	5.407
Nichiku Ltd.★★◆	10	1993	-	4¾	100⅛	Daiwa-Finanz	4.721
Taiyo Kobe Bank§	150	1993	-	(½)	100	UBS	★
Taiyo Kobe Bank§★★	150	1993	-	(½)	100	UBS	★
Fujita Corp.§★★	100	1993	-	(½)	100	Credit Suisse	★
Fujita Corp.§★★	100	1994	-	(½)	100	Credit Suisse	★
Hokuriku Electric★★◆	150	1993	-	4⅝	100	Credit Suisse	4.625
Hokuriku Electric◆	150	1993	-	4½	100	Credit Suisse	4.500
Bridgestone Corp.§★★	100	1992	-	(½)	100	UBS	★
Nihon Nohyaku Co.§★★	100	1994	-	(½)	100	Handelsbank NatWest	★
Nichimo Corp.§★★	140	1994	-	(½)	100	Handelsbank NatWest	★
Kyoritsu Ceramic§★★	20	1994	-	(½)	100	Bank Julius Baer	★
Ricoh Elemex Corp.§★★	40	1993	-	(½)	100	Wirtschafts-und Pbk	★
Hanshin Sogo Bank§★★	100	1993	-	(½)	100	B.della Sviz.Italiana	★
STERLING							
Ford Credit Funding◆	60	1993	5	10¾	101½	Hambros Bank	10.351
M'gage Funding No.3†◆	120	2023	7½	(f)	100	Kleinwort Benson	-
ECUs							
General Electric◆	150	1992	4	7⅝	101½	Bankers Trust Int.	7.180
GUILDERS							
Aegon NV (c)◆	150	1993	5	½	98	ABN	0.911
Browning Ferris Ind.◆	125	1993	5	6½	100½	CSFB Nederland	6.380
McDonald's Corp. (d)◆	150	1993	5	½	98	Amro Bank	0.911
LKB Baden Wurttemberg◆	200	1993	5	6	101¼	Amro Bank	5.706
FRENCH FRANCS							
Credit Suisse Fin.◆	600	1993	5	8½	101¼	Societe Generale	8.185
LUXEMBOURG FRANCS							
Cregem Finance NV(h)★★◆	900	1994	6	7½	100¼	BIL	7.447
Sparekassen SDS★★◆	300	1993	5	7½	100	C.d'Epargne l'Etat	7.500
YEN							
ASLK-CGER FICO†◆	4bn	1992	4	(e)	101⅜	LTCB Int.	-
AT&T Credit Corp(a)◆	13bn	1992	4	6½	101⅝	Nikko Secs (Europe)	6.031

†Not yet priced. ★★Private placement. ◆With equity warrants. §Convertible. ◆Final terms. a) Dual-currency. Coupon payable in Yen - redemption to US$ at 123.69. b) Convertible into gold cash equivalent of gold price. c) With currency warrants. Each Fl10,000 has 26 warrants to buy $500 with DM between Nov, 1988 and Oct. 1990. d) With currency warrants. Each Fl10,000 has 27 warrants to buy $500 with DM between Nov. 1988 and Oct. 1990. e) Japanese long-term prime rate plus 1%. Redemption linked to Nikkei stock index. f) 30bp over 3m Libor first 10 years, 80bp thereafter. g) Launched on US domestic market. h) Launched in three tranches of Lfr300m each. i) 80bp below Australian bank bill rate. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Frustrations trigger premature bond rally

ONLY THE pent-up frustration of a gigantic herd of frisky bulls could reasonably account for Friday's explosion of enthusiasm in the US bond market.

September's employment numbers were on the low side of expectations, to be sure. But with a whole range of even more crucial statistics due for release this week — including the trade deficit, industrial production and producer price figures — it may be prudent to pause for some more careful reflection before concluding that the great bond rally of the late 1980s has finally begun.

Indeed, the sudden unanimity of so many credit market economists in hailing the new non-inflationary paradise is cause enough to wonder whether bonds may be temporarily overbought.

The details of last Friday's employment numbers, even when added to the continuing disarray in Opec, did not seem sufficient to justify the sudden optimism. The 255,000 advance in payrolls was only slightly below the market's expectations and well above the rate of employment growth in the previous two months, even if half the employment growth was in the public sector.

The main surprise in the figures was the sharp downward revision of August's payroll figure — from 219,000 to 169,000. However, that remarkably low August number could actually be seen as a confirmation of the view the bears had held all along: that the economy's summer slowdown was largely a weather-related freak, and that business began to pick up quite strongly from September.

There were a number of other ambiguous features in the employment report. Working hours and pay increases both rose significantly in September. Indeed, the earnings figures could be seen as consistent with wage inflation of anything from 4 to 10 per cent depending on which of the many series one looked at.

The breakdown of September's employment growth by industry, on the other hand, pointed to a significant slowdown in manufacturing activity. Manufacturing employment fell by 18,000 in September, after a 19,000 drop in August — with the underlying weakening probably greater because of seasonal gains in the motor industry, which masked bigger declines everywhere else.

On balance, then, it is probably reasonable to suppose that the US economy is slowing after its unsustainable burst of growth in the late spring. And if the economy does continue to decelerate, one of the necessary conditions for a bond rally will certainly be in place.

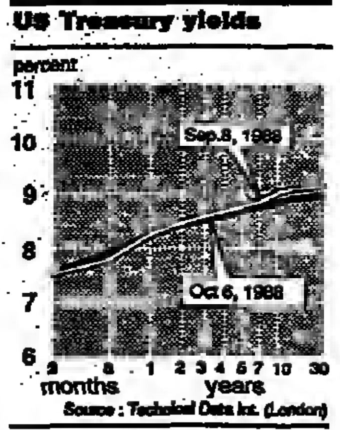
It is another matter, however, to conclude that a modest slowdown, stopping well short of an outright recession, will be sufficient to unleash a genuine bull market in bonds.

For a bull market to be sustainable, at least two other conditions will have to be realised: the underlying rate of inflation, which has now crept up to about 5½ per cent, will have to fall and much further progress will have to be made in narrowing the US trade and current account deficits, which are unlikely to be financeable at much lower interest rates if they continue at their present pace of well over $100bn a year.

This does not mean, of course, that investors can afford to hold back until significantly lower inflation and trade figures are actually confirmed in the statistics.

It does mean, however, that bond rallies will continue to be aborted by reversals on either the inflation or the trade fronts until these problems are well on their way to being resolved.

US Treasury yields



The key questions, therefore, are whether inflation and trade, as well as economic growth, are now under control.

On the first score, the continuing decline in unemployment could scarcely be described as encouraging. Since the Second World War, an inflationary trend has never been reversed without a significant rise in unemployment. Whatever else may be said about the Federal Reserve Board's recent policy, it does not yet seem to have been tough enough to hurt the service sector of the economy, where jobs are still being created and where inflationary expectations are still most firmly entrenched.

This also raises a serious worry about the US trade outlook. The recent falls in manufacturing employment, combined with the purchasing managers' report published last Monday which suggested a significant weakening in export orders, seem to confirm the fears of many economists that the growth of US exports and import substitution has now peaked.

A related event occurred this week on the political front, suggesting the possible emergence of protectionism as a key factor in the forthcoming presidential elections.

A fascinating, though virtually unreported minute-by-minute poll by the USA Today newspaper during the vice-presidential candidate's debate, showed public enthusiasm for Senator Lloyd Bentsen reaching its climax not at the moment of the much-publicised exchange about President Kennedy but when he attacked the Japanese for failing to buy American farm goods.

This point was not lost on Governor Dukakis, who hit the theme of economic nationalism for the first time in the campaign the very next day.

Mr Dukakis declared: "Foreign companies are buying up real estate, buying up companies, buying up plants in this country. Pretty soon we're going to be tenants in our own country — and what did we hear from the other fellow last night? Hey, it's OK, let 'em all come over."

Barring a disastrous set of trade figures on Thursday, US and international policymakers should not have too much difficulty preserving financial stability for another 30 days to give Mr Bush the best possible chances of winning. But the period of calm could end quite abruptly on November 9.

Anatole Kaletsky

UK GILTS

Monopolies ruling over KIO forces Bank to raise profile

THE BANK OF ENGLAND was once again active in the gilts market last week. Market suggestions that the Bank bought-in about £500m, mostly on Tuesday, seem far too high and a figure of half that amount may be a more likely upper limit.

The Bank's move into the market on Tuesday was seen by many as being qualitatively different from its past activities.

To be sure, the Bank made known its intention to buy stock more forcefully than usual, but it is a mistake to think this marks a change from its policies of supporting the market and retiring debt.

Tuesday's high profile was adopted by the Bank because of its concern over how the markets would react to the Monopolies and Mergers Commission's report recommending divestment by the Kuwait Government of half its shareholding in British Petroleum.

The equity market was rocked by the decision and there were concerns over sterling.

The Bank, therefore, presents its Tuesday operation very much in the guise of market management.

It seems the misinterpretation of its activities had to do with the fact that few in the gilts market were aware of the Commission's report at the time the Bank made known its desire to buy stock.

It was clear from its activities, however, that when the Bank is prepared to buy it will buy any stock offered to it. Last week it was offered and bought longer dated stocks around the 15-year area, especially the 11¾ per cent Treasury 2003/07s and the 13½ per cent Treasury 2004/08s.

At a time when there are genuine concerns over the liquidity of the market, it has struck some as bordering on the perverse to buy-in stocks which are some of the most liquid and actively traded.

The Bank's attitude seems to be that if they want to sell it, we'll buy it.

This has again raised further questions about the Bank funding policy. Should the Government's public sector surplus be directed at reducing the stock of outstanding debt, or should it have a monetary policy function, that is, be used to reduce the growth in broad money supply?

On one count, if the Bank attempted to neutralise the public sector's effect on the monetary base then it would have to buy-in about £500m of gilts every month for the rest of the financial year. Some analysts come up with higher figures.

In the current economic climate, over-funding makes sense.

As some at the Bank point out, over-funding soaks up excess liquidity which could find its way into the equity and property markets, and/or flow overseas. It also tends to support short-term interest rates at a higher level than they may otherwise be, thereby lending further support to sterling.

The situation now is also completely different from that which prevailed in 1985 when the Government elected to ditch over-funding as a policy option.

The existence of the "bill mountain" (the Bank's holdings of eligible commercial bills) was embarrassing although it was not, and its not, beyond the wit of the Bank to deal with it.

The debate in 1985 was bound up with the Government's divorce from broad money targeting.

The Government was also then a forced seller of debt and issues of crowding out were important.

None of these now apply. The bill mountain, such as it is, is about £7bn, compared with about £17bn at its worst in 1985. It should be remembered, however, if the levels of late 1985 were regarded as embarrassing then during January this year, when the tax paying season was in full flight, the mountain grew to about £12bn.

And this January looks like being no better. A reversion to modest over-funding combined with tax payments could create difficulties in the money markets.

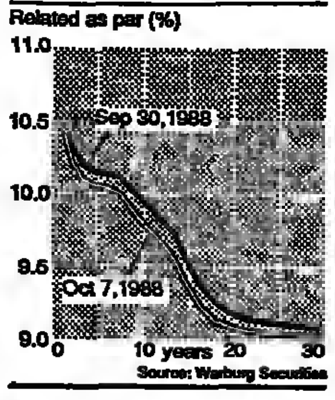
The Bank, however, has a number of options open to it.

It has already increased the size of the weekly Treasury bill tender to £400m. If that proves insufficient it can inject liquidity into the market through an invitation to banks and building societies to participate in gilt repurchase agreements or by buying banks' export credits paper.

It is difficult to read the Bank's mind at present. On one level there seems to be little concern over the effects of buying-in. On another the Bank agrees there is nothing it would like more than to have about 10 very liquid gilt stocks on issue, but at the same time appearing to reject it by consigning it to the "too hard" basket.

Simon Holberton

UK gilts yields



US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	8.27	8.24	7.99	8.27	6.27
Three-month Treasury bills	7.27	7.26	7.29	7.53	5.14
Six-month Treasury bills	7.45	7.79	7.42	8.04	5.74
Three-month prime CDs	8.25	8.17	8.28	8.51	6.77
30-day Commercial Paper	8.10	8.02	8.08	8.20	6.57
90-day Commercial Paper	8.32	8.24	8.18	8.40	6.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week Ago	4 wk. ago
Seven-year Treasury	101¼	+1¼	8.59	8.77	8.79
20-year Treasury	104⅞	+1⅞	8.97	8.97	8.97
30-year Treasury	103⅞	+1⅞	8.80	8.89	8.98
New 10-year "A" Financial	n/a	n/a	n/a	9.70	9.75
New "AA" Long utility	n/a	n/a	n/a	9.95	10.05
New "AA" Long industrial	n/a	n/a	n/a	9.90	9.95

Source: Salomon Bros (estimates).

Money supply: In the week ended September 26, M1 rose by $0.1bn to $784.9bn

NRI TOKYO BOND INDEX

December 1983 = 100	PERFORMANCE INDEX 17/9/87	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	144.68	4.84	144.11	143.00	144.20
Government Bonds	145.45	4.51	144.57	142.74	145.52
Municipal Bonds	146.16	5.18	145.66	145.37	145.48
Govt.-guaranteed Bonds	147.41	5.17	147.07	146.89	146.77
Bank Debentures	138.37	4.84	138.08	137.62	137.63
Corporate Bonds	144.76	5.57	144.60	143.90	142.91
Yen-denom. Foreign Bonds	148.64	6.27	148.46	145.94	143.35
Government 10-year†	5.17		5.22	5.31	4.76

1 Estimated par yield

Source: Nomura Research Institute

FT/AIBD INTERNATIONAL BOND SERVICE

	Issued	Bid	Offer	Chg on day	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions. FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon. CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price. WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on 7 OCTOBER

Gardini aide in Enimont ultimatum

By Alan Friedman in Rome

A SENIOR aide to Mr Raul Gardini, head of the Ferruzzi-Montedison group, has delivered an unusual ultimatum to the Italian Government.

Unless Mr Gardini receives specially tailored benefits which will help him to defer the immediate payment of more than $1bn of capital gains tax, he will not go ahead with the long-awaited joint venture chemicals company to be formed by merging part of Montedison with the state-owned Enichem group.

Until now, Mr Gardini has said nothing publicly about this request, which he first made to Mr Ciriaco De Mita, Italy's Prime Minister, in a private meeting last June.

But at the weekend, Mr Sergio Cragnotti, deputy chairman of Montedison and one of Mr Gardini's closest aides, said that if the Government did not act on the tax issue by the end of this month the formation of Enimont, the joint venture chemicals group, would "be placed in difficulty."

The special legislation being sought by Montedison stems from the fact that in transferring part of its assets to Enimont, the Gardini-controlled company will realise a capital gain of L3,000bn ($2.16bn). This would mean paying capital gains tax at the 50 per cent level.

Mr Cragnotti said that "the Government must give us a hand and we expect a response by the end of October."

He termed the idea of paying $1.1bn of taxes as "a really implausible cost."

He added: "We have thus requested a law that will not exempt us from the payment, but defer it."

The tax issue, Mr Cragnotti explained, was the only issue still unresolved in the long-running negotiations designed to create a unified Italian chemicals group, with about $10bn of annual turnover.

It is believed that Mr Gardini is seeking to defer the capital gains tax payment for three years.

Meanwhile, Mediobanca, the Milan merchant bank which last winter engineered the controversial restructuring that removed from Montedison its prize Meta financial services assets and created a situation in which Montedison had a 34 per cent cross-holding in its parent Ferruzzi group shareholder, is moving ahead next week with the placing of 365m shares in the master Ferruzzi Finanziaria (Ferfin) holding company. The deal is designed to raise about L1,100bn.

Ferruzzi Agricola Finanziaria (Faf), the Ferfin vehicle which controls 42 per cent of Montedison, will itself be offered 118m of the 365m Ferfin shares.

However, there is a 2 per cent limit in Italy on holding one's own stock.

Consequently, these shares, amounting to 10.12 per cent of Ferfin, will be dealt with as follows: 2 per cent will be retained, 2 per cent will be placed with institutions and a further 6 per cent will be parked in Spafid, the Mediobanca fiduciary trust company, until they can be offered next year to Faf shareholders.

Chicago bank sees cut in Third World debt

By David Lascelles, Banking Editor

FIRST CHICAGO, the largest bank in the US midwest, expects to have reduced its Third World debt exposure by nearly a quarter by the end of this year, but opposes the idea of forgiving debt.

Mr Barry Sullivan, chairman, said in an interview that First Chicago's exposure — which stood at $3bn at the beginning of the year — will be $2.5bn when its third-quarter results are announced next week, and below $2.3bn by December 30.

The bank is using a mixture of debt swaps and debt for equity exchanges to bring down the total of its doubtful country loans. It has also been increasing the level of its provisions above that set by most other US banks. They currently stand at an average 48 per cent, and at 70 per cent on loans that have been rescheduled.

Mr Sullivan said he believed that the best way to resolve the LDC debt problem was "through more innovation." He maintained that schemes like the Mexican bond swap and the recent Brazilian package with multiple options should be pursued. "Debt relief is a better concept than debt forgiveness," he said.

First Chicago had examined many ways of hiving off its Third World loans into a separate subsidiary, but concluded they were not worthwhile. Although such a course had the advantage of cleaning out the balance sheet, it was costly in terms of write-downs and capital, and would probably not be rewarded by the stock market. A bank which got rid of its Third World loans would also lose influence in the international marketplace.

Mr Sullivan, who was passing through London after an extensive tour of Eastern Europe, said he believed the socialist countries would be substantial buyers of finance and financial services as they sought to modernise their economies.

Although it was difficult to make generalised credit judgments about Eastern Europe, he said: "It is in the interests of the West to be helpful."

Skandia chiefs to sell personal holdings in unit

By Sara Webb in Stockholm

TWO SENIOR executives at Skandia, Sweden's leading insurance group, who had come under attack for share-dealing practices in connection with a recent takeover bid, said yesterday they would clear their names by selling off the shares at the original price they had paid for them.

Mr Bjorn Wolrath, chief executive officer, and Mr Bjorn Hall, finance director, bought shares worth about SKr2m ($314,000) in Skandia International, the separately quoted re-insurance arm of Skandia, at the end of June.

However, when Skandia bid SKr3.6bn for outstanding shares in Skandia International two weeks ago, offering a premium of 29 per cent over the market price, both executives were criticised in the media.

The two men, who are also on the Skandia International board, claimed the decision to bid for Skandia International came at least six weeks after the share transaction took place. Sweden's Banking Inspectorate, the financial market's watchdog, launched an insider trading investigation but cleared the two men, although criticism of their transaction has continued in some sections of the media.

Sydney futures trade at record

By Chris Sherwell in Sydney

TRADING VOLUMES on the Sydney Futures Exchange for the first nine months of this year have already exceeded the record levels achieved in 1987, according to figures released last week.

The exchange, set up 27 years ago to help investors in financial and certain commodities markets to manage their risk exposures, claims to be the leading futures and options exchange in the Asia-Pacific region.

The latest figures show that, between January and September, a total of 5.7m futures and options contracts were traded, 46 per cent ahead of the September 1987 level and well clear of the 5.56m figure for all contracts last year.

The volume for the 90-day bank bill contract was up 48 per cent on the same period last year, at 2.25m, while the 10-year Treasury bond contract rose 46 per cent to 2.16m.

Options on bank bill futures more than trebled to 137,500, and more than doubled on the bond contract to 571,000.

A further strong contribution came from the new three-year bond futures and options contracts, and to a lesser extent from the restyled Australian dollar-US dollar foreign exchange contracts.

However, the contract based on the All-Ordinaries share price index showed the opposite trend, more than halving its volume to 215,600, as did the related options contract. In both cases this was a direct result of the stock market crash 12 months ago.

Poor performances also continued to come from the US Treasury bond and Eurodollar interest rate contracts, where there is no physical market and less local interest.

In a statement last week, the exchange said the increased trading volumes in its most successful contracts "represented further penetration of the market through promotion and education" by the exchange and its members.

£400m multi-option facility for C&W

By Norma Cohen

CABLE & Wireless has mandated Hong Kong and Shanghai Bank and Midland Bank to arrange for it a £400m mulitple-option facility.

The facility incorporates a £200m committed standby facility with a five-year maturity and a facility fee of six basis points. The margin is set at 10 basis points over London interbank offered rates (Libor). Participation fees were not disclosed.

The £400m uncommitted portion has a tender panel structure. Proceeds will be used to consolidate existing bank lines of credit and to expand funding sources.

Separately, T. Cowie, a vehicle finance operations firm, has mandated Barclays de Zoete Wedd to arrange a £50m commercial paper programme.

Stephen Fidler adds: Details emerged last week of two large bank financings for Canadian borrowers. Air Canada, 55 per cent owned by the Government, has mandated Citicorp, Bank of Montreal and BNP for a $400m flexible, eight-year term loan.

It carries a facility fee of ¼ per cent, a maximum margin of ⅛ per cent and a utilisation fee if more than half drawn of 4 basis points.

Chase Manhattan is said to be raising $500m over eight years for Gulf Canada, which carries a margin of 15 basis points and a facility fee of 12½.

UK COMPANY NEWS

LOFS unveils reconstruction and financial package

By Nigel Clark

London & Overseas Freighters has announced a major capital reconstruction and refinancing after increased losses this year left the balance sheet at the end of March showing a deficit on net assets of $7.7m.

If all the changes are completed new capital will make up 90 per cent of the total.

Under the arrangements a rights issue to raise a gross £4.5m is proposed on the basis of one new 'B' preferred share at 40p for every 25 of the ordinary or 'B' preferred held.

The cash raised will be used to repay a short-term loan of $7.5m from Seneca Shipping Corporation, in which Mr M A Kulukundis, a LOFS director, has a beneficial interest.

The Seneca loan is being used to repay $6.8m in part settlement of loans from the Royal Bank of Scotland and the Bank of Nova Scotia, on which interest payments have been suspended since October 1985 and the unsecured loan from Bankers Trust in full.

The banks are also receiving warrants. Upon the issue of the shares the balance of the loans will be waived.

In addition there are new arrangements for the $19m first mortgage loans with Sumitomo Corporation and Sumisho Lease. Sumitomo Corporation UK has made a short-term loan of $19m, repayable within a year. The loan will be guaranteed by Sumitomo Corporation, which will also arrange for a long-term loan of up $19m to repay the Sumitomo UK loan.

For these undertakings Sumitomo will be granted sufficient warrants to give it 5 per cent of the increased capital.

To cut the deficit on the profit and loss account the director propose to reduce the nominal value of the 25p ordinary shares and 1p preferred to 1/9p with every 225 shares being consolidated into 25p ordinary or 25p preferred.

The balance of the profit and loss deficit will be eliminated by a reduction in the share premium account.

Friendly Hotels terminates talks

Friendly Hotels has terminated the negotiations, announced last May, for the purchase of Baron Hotels and Leisure for about £25m.

Mr Henry Edwards, Friendly chairman, said that delays in receiving information and insufficient accounting information to satisfy Stock Exchange requirements had forced the termination.

Serif Cowells on target

CURRENT ORDER books and an interim pre-tax result of £1.92m against £1.77m indicated that profits were on target for the full year at Serif Cowells, directors said. The figures incorporate results for Cowells and San Serif which were merged in July.

All divisions — security, financial and colour printing, and book and bingo ticket manufacturing — generate most of their profits and much of their growth in the second half of the year. In the first half, to June 30, turnover improved from £26.39m to £27.92m.

Interim dividend is 1.5p (1p). Earnings amounted to 5.2p (4.3p) after tax of £671,000 (£717,900).

Diversification into related areas within the leisure division was continuing.

The company's shares are traded on the USM.

Hawtal Whiting profit

HAWTAL WHITING Holdings, motor industry design and and engineering consultancy, returned profits of £32,000 pre-tax for the first half of 1988.

That was a sharp downturn on the £813,000 recorded for the first six months of 1987 but the figure also compared with the £2.35m loss incurred for the second half of 1987. Mr John Whitecross, chairman, said that improvement reflected the efforts made to return the business to profitability that he referred to in his annual report for 1987.

First half turnover totalled £14.74m (£15.87m). For the remainder of the year the directors anticipated an increase in turnover with improved margins and they expected this trend to continue in 1989.

Scruttons up to £974,000

Pre-tax profits at Scruttons, involved in transportation, port operating, engineering and security guarding, soared from £159,000 to £974,000 in the first half of 1988. Transportation profit advanced from £21,000 to £521,000.

Group turnover moved ahead from £7.66m to £8.7m. Earnings per share came out sharply up at 18.3p (2.6p). The interim dividend is raised from 1.75p to 5p.

Intl Trust of Jersey recovers

International Investment Trust Company of Jersey made taxable profits of £262,000 in the half year ended June 30 compared with losses of £349,000.

Investment activities realised profits of £197,000 (£131,000) and the company's share of profits from REA Holdings totalled £65,000 (loss of £480,000). Gross interim dividend is 6p (5p). The directors expect to declare a second interim of 7.5p (7p).

MIM BRITANNIA UNIT TRUST MANAGERS LIMITED

Scheme of Amalgamation Britannia Arrow Special Situations Trust with MIM Britannia Special Features Trust.

MIM BRITANNIA

As a result of the passing of Extraordinary Resolutions by the unitholders of the above Trusts at separate meetings, the Scheme became effective on 16th September, 1988. The terms of exchange of units of Britannia Arrow Special Situations Trust for units of MIM Britannia Special Features Trust is as follows:-

1 Unit of Britannia Arrow Special Situations Trust — 13.35025 'A' Accumulation Units of MIM Britannia Special Features Trust.

Replacement certificates will be despatched not later than 15th November, 1988 to the former holders of Units of Britannia Arrow Special Situations Trust.

MIM BRITANNIA UNIT TRUST MANAGERS LIMITED

Scheme of Amalgamation Britannia Arrow European Growth Strategy Trust with MIM Britannia European Performance Trust

MIM BRITANNIA

As a result of the passing of Extraordinary Resolutions by the unitholders of the above Trusts at separate meetings, the Scheme became effective on 2nd September, 1988. The terms of exchange of units of Britannia Arrow European Growth Strategy Trust for units of MIM Britannia European Performance Trust is as follows:-

1 Unit of Britannia Arrow European Growth Strategy Trust = 0.87799 "B" Distribution of MIM Britannia European Performance Trust.

Replacement certificates will be despatched not later than 1st November, 1988 to the former holders of Units of Britannia Arrow European Growth Strategy Trust.

Smith & Nephew US venture

Smith & Nephew, the medical, healthcare and toiletries group, has entered a joint venture with Vitaphore of San Carlos, California, to research and develop advanced disposable wound care products.

The joint company, Vitaphore Wound Healing, will be based in Chicago and its products will be sold exclusively through S&N's international network.

ECC purchase

English China Clay has paid A$6.6m (£3m) cash for the reserves and processing plant of Kaomin, an Australian group with the capacity to produce about 60,000 tons of kaolin a year.

Quarto issue

Quarto Group, the USM-quoted book and magazine publisher, proposes to raise £5.2m before expenses through an issue of convertible preference shares. The proceeds would be used to repay borrowings with the balance placed on deposit.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims: Arlington Secs., Barlows, Brown Shipley Intl. Bd. Fd., Chillington Corp., Dewhirst, ICA Ordnance, [illegible], Leeds United, [illegible] & Edinburgh.

Finals: [illegible], Brown Shipley Sterling Cap. Fd., Colorgen Inc., Goodwin, Highpoint Grp., [illegible].

FUTURE DATES

Interims:

Alfa-Laval	Oct. 11
Boot (H.)	Oct. 19
[illegible]	Oct. 14
[illegible]	Oct. 13
European Colour	Oct. 20
Forward Group	Oct. 25
[illegible]	Oct. 20
[illegible]	Oct. 18
[illegible]	Oct. 19
[illegible]	Oct. 17
Rowlett	Oct. 17
[illegible]	Oct. 13
Storeguard	Oct. 21
[illegible]	Oct. 14

Finals:

Britannia Security	Oct. 12
CDFC Trust	Oct. 13
Calor Group	Nov. 25
[illegible] Trust	Oct. 26
Highland Electronics Grp.	Oct. 25
Wolseley	Oct. 26

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition: Cupid (Section: Third Market). NMC 7.75% net Acc. Red. Conv. Pref. shs. (Industrials). Rockfort Group (Property).

Cydsa

To the Holders of Floating Rate Notes of

CYDSA, S.A.

Due 1986-1991

PLEASE TAKE NOTICE that CYDSA, S.A., a corporation organized and existing under the laws of the United Mexican States, has previously offered, pursuant to an Offer Letter dated October 12, 1988, to redeem the U.S. $50,000,000 Floating Rate Notes due 1986-1991 and issued pursuant to a First Supplemental Indenture dated as of February 5, 1985 between Cydsa, S.A. and First Interstate Trust Company of New York, as Successor Trustee, as supplemented by a Second Supplemental Indenture dated as of August 30, 1985 and a Third Supplemental Indenture dated as of March 25, 1988. To accept the offer the Form of Acceptance should be executed and delivered in accordance with the instructions in paragraph 4 of the Offer Letter on or before October 17, 1988. Holders may obtain a copy of the Offer Letter from Royal Bank of Canada, London, 71 Queen Victoria Street, London, England EC4V 4DE. Attn: Agency Department or First Interstate Trust Company of New York, 2 Broadway — 29th Floor, New York, New York 10004, as Successor Trustee.

Standard Chartered

Standard Chartered PLC

(Incorporated with limited liability in England)

US$400,000,000 Undated Primary Capital Floating Rate Notes

In accordance with the provisions of the Notes, notice is hereby given that for the Interest Determination period from 11th October, 1988 to 14th November, 1988, the Notes will carry interest at the rate of 8 13/16 per cent. per annum.

Interest accrued to 14th November, 1988 and payable on 6th January, 1989 will amount to US$83.23 per US$10,000 Note and US$832.29 per US$100,000 Note.

Standard Chartered Merchant Bank Limited
Agent Bank

Central American Bank for Economic Integration (CABEI)

U.S. $20,000,000

Floating Rate Serial Notes due 1994

For the six months 11th October, 1988 to 11th April, 1989

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest has been fixed at 9⅞ per cent. per annum, and that the interest payable on the relevant interest payment date, 11th April, 1989 against Coupon No. 20 will be U.S. $222.95.

The Industrial Bank of Japan, Limited
Agent Bank

NOTICE OF A MEETING

of the holders of

Bremer Landesbank Finance (Curaçao) N.V.

A$50,000,000 14¾% Notes due 1990

NOTICE IS HEREBY GIVEN that a Meeting of the holders (the "Noteholders") of the above-mentioned Notes (the "Notes") convened by Bremer Landesbank Finance (Curaçao) N.V. (the "Issuer") will be held at 3.30 am (London time) on 1st November, 1988 at the offices of The Royal Bank of Canada, 71 Queen Victoria Street, London EC4V 4DE for the purpose of considering and, if thought fit, passing the following Resolution which will be proposed as an Extraordinary Resolution in accordance with the provisions of the Fiscal Agency Agreement dated 9th March, 1987 made between the Issuer, Bremer Landesbank Kreditanstalt Oldenburg –Girozentrale– (the "Guarantor"), Orion Royal Bank Limited (the "Fiscal Agent") and others, as amended, relating to the Notes.

The Resolution, if passed, will modify, inter alia, the Terms and Conditions of the Notes (the "Conditions") by the insertion of an additional Condition pursuant to which the Issuer may, without the consent of the Noteholders or the holders of the coupons appertaining thereto (the "Couponholders" and the "Coupons", respectively), effect the substitution of a body corporate incorporated or established outside the Federal Republic of Germany as debtor under the Notes and Coupons and the discharge of the Issuer from its obligations and liabilities under the Notes and Coupons, subject to the payment of principal, interest and other amounts in respect of the Notes continuing to be unconditionally and irrevocably guaranteed by the Guarantor.

Noteholders should note, in particular, that, in connection with any substitution effected pursuant to the modified Conditions, the Issuer will not be required to have regard to the consequences of such substitution for individual Noteholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and no Noteholder or Couponholder will be entitled to claim from the Issuer, the Guarantor or the substituted debtor any indemnification or payment in respect of any tax or other consequence arising from such substitution.

Full details of the background to, and the reasons for, the proposed modification and the Extraordinary Resolution are contained in an Explanatory Statement prepared by the Issuer and the Guarantor dated 10th October, 1988, copies of which are available for collection by Noteholders at the specified offices of the Agents for the Notes specified below. The Explanatory Statement contains, inter alia, (1) the form of the Substitution of Debtor Condition which will be incorporated into the Conditions if the Extraordinary Resolution is passed and (2) the form of the Deed of Guarantee by the Guarantor in, or substantially in, the form in which it will be executed in connection with any substitution of debtor effected in accordance with the Conditions as so modified (and having attached Conditions in, or substantially in, the form which would apply following any such substitution).

The Resolution to be proposed at the Meeting is as follows:-

EXTRAORDINARY RESOLUTION

"THAT this Meeting of the holders (the "Noteholders") of the A$50,000,000 14¾% Notes due 1990 (the "Notes") of Bremer Landesbank Finance (Curaçao) N.V. (the "Issuer") issued under a Fiscal Agency Agreement (the "Fiscal Agency Agreement") dated 9th March, 1987 made between the Issuer, Bremer Landesbank Kreditanstalt Oldenburg –Girozentrale– as guarantor (the "Guarantor"), Orion Royal Bank Limited as Fiscal Agent (the "Fiscal Agent") and others, as amended, hereby:-

(1) assents to the modification of the Terms and Conditions of the Notes (as printed on the reverse thereof and Schedule 1 to the Fiscal Agency Agreement) proposed in paragraph (b) of the Explanatory Statement issued by the Issuer and the Guarantor and dated 10th October, 1988, a copy of which has been produced to this Meeting and initialled by the Chairman hereof and by or on behalf of the Issuer for the purpose of identification;

(2) sanctions every modification, abrogation, variation, compromise of, or arrangement in respect of, the rights of the Noteholders and the holders of the Coupons appertaining to the Notes against the Issuer or the Guarantor involved in, or resulting from, the modification referred to in paragraph (1) of this Resolution or any substitution of debtor made pursuant to, and in accordance with, the Terms and Conditions of the Notes as so modified; and

(3) authorises the execution of a Supplemental Fiscal Agency Agreement in the form of the draft produced to this Meeting and for the purpose of identification signed by the Chairman hereof to give effect to the modification referred to in paragraph (1) of this Resolution."

The attention of Noteholders is particularly drawn to the quorum required for the Meeting and for an adjourned Meeting which is set out in paragraph 2 of "Voting and Quorum" below.

Copies of the Fiscal Agency Agreement (including the currently applicable Conditions), as amended, and of certain other relevant documents are available for inspection by Noteholders at the specified offices of the Agents for the Notes specified below.

VOTING AND QUORUM

1. A Noteholder wishing to attend and vote at the Meeting in person must produce at the Meeting either the Note(s), or a valid voting certificate or valid voting certificates issued by an Agent relative to the Note(s), in respect of which he wishes to vote.

   A Noteholder not wishing to attend and vote at the Meeting in person may either deliver his Note(s) or voting certificate(s) to the person whom he wishes to attend on his behalf or give a voting instruction (on a voting instruction form obtainable from the specified office of any of the Agents specified below) instructing an Agent to appoint a proxy to attend and vote at the Meeting in accordance with his instructions.

   Notes may be deposited until the time being 48 hours before the time appointed for holding the Meeting (or, if applicable, any adjourned such Meeting) but not thereafter with any Agent or (to the satisfaction of the Fiscal Agent) held to the Fiscal Agent's order or blocked to its satisfaction by Euro-clear or CEDEL S.A., for the purpose of obtaining voting certificates or giving voting instructions in respect of the relevant Meeting. Notes so deposited or held will be released at the conclusion of the Meeting (or, if applicable, any adjourned such Meeting) or upon surrender of the voting certificate(s) or, being not less than 48 hours before the time for which the Meeting (or, if applicable, any adjourned such Meeting) is convened, the voting instruction receipt(s) issued in respect thereof.

2. The quorum required at the Meeting is two or more persons present holding Notes or voting certificates or being a proxy or proxies and holding or representing in the aggregate more than one half of the principal amount of the Notes for the time being outstanding. If within half an hour from the time appointed for the Meeting a quorum is not present at the Meeting, the Meeting will be adjourned and the Extraordinary Resolution will be considered at an adjourned Meeting (notice of which will be given to the Noteholders). The quorum required to consider the Extraordinary Resolution at such an adjourned Meeting will be two or more persons present in person holding one or more Notes or voting certificates or being a proxy or proxies whatever the principal amount of the Notes so held or represented by them.

3. Every question submitted to the Meeting or the adjourned Meeting will be decided on a show of hands unless a poll is duly demanded by the Chairman of the Meeting or by one or more persons present in person and holding one or more Notes or voting certificates or being a proxy or proxies and holding or representing in the aggregate not less than one-fiftieth of the principal amount of the Notes then outstanding. On a show of hands every person who is present in person and produces a Note or voting certificate or is a proxy shall have one vote. On a poll every person who is so present shall have one vote in respect of each A$1,000 in principal amount of the Notes so produced or represented by the voting certificate so produced or in respect of which he is a proxy. On a show of hands a declaration by the Chairman of the Meeting that a resolution has been carried or lost shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

4. To be passed, the Extraordinary Resolution requires a majority in favour consisting of not less than three-quarters of the persons voting thereon upon a show of hands or, if a poll is duly demanded, then by a majority consisting of not less than three-quarters of the votes given on such poll. If passed, the Extraordinary Resolution will be binding upon all the Noteholders, whether or not present at such Meeting and whether or not voting, and upon all Couponholders.

AVAILABILITY OF DOCUMENTS

Copies of the Fiscal Agency Agreement, as amended, may be inspected, and copies of the Explanatory Statement, voting certificates and other documents referred to above may be obtained, by Noteholders from the specified office of any of the Agents given below.

FISCAL AGENT

Orion Royal Bank Limited,
71 Queen Victoria Street,
London EC4V 4DE

PAYING AGENTS

The Royal Bank of Canada A.G.,
Gutleutstrasse 85,
D-6000 Frankfurt/Main 1

The Royal Bank of Canada (France) S.A.,
3 rue Scribe,
F-75440 Paris

The Royal Bank of Canada (Belgium) S.A.,
rue de Ligne 1,
B-1000 Brussels

The Royal Bank of Canada (Suisse),
rue Diday 6,
CH-1204 Geneva

Nord/LB Norddeutsche Landesbank
Luxembourg S.A.,
26 Route d'Arlon,
L-1140 Luxembourg

This Notice has been approved by Orion Royal Bank Limited, a member of The Securities Association.

NOTICE OF A MEETING

of the holders of

Bremer Landesbank Finance (Curaçao) N.V.

A$40,000,000 15% Notes due 1990

NOTICE IS HEREBY GIVEN that a Meeting of the holders (the "Noteholders") of the above-mentioned Notes (the "Notes") convened by Bremer Landesbank Finance (Curaçao) N.V. (the "Issuer") will be held at 11.00 am (London time) on 1st November, 1988 at the offices of The Royal Bank of Canada, 71 Queen Victoria Street, London EC4V 4DE for the purpose of considering and, if thought fit, passing the following Resolution which will be proposed as an Extraordinary Resolution in accordance with the provisions of the Fiscal Agency Agreement dated 24th April, 1987 made between the Issuer, Bremer Landesbank Kreditanstalt Oldenburg –Girozentrale– (the "Guarantor"), Bankers Trust Company (the "Fiscal Agent") and others, as amended, relating to the Notes.

The Resolution, if passed, will modify, inter alia, the Terms and Conditions of the Notes (the "Conditions") by the insertion of an additional Condition pursuant to which the Issuer may, without the consent of the Noteholders or the holders of the coupons appertaining thereto (the "Couponholders" and the "Coupons", respectively), effect the substitution of a body corporate incorporated or established outside the Federal Republic of Germany as debtor under the Notes and Coupons and the discharge of the Issuer from its obligations and liabilities under the Notes and Coupons, subject to the payment of principal, interest and other amounts in respect of the Notes continuing to be unconditionally and irrevocably guaranteed by the Guarantor.

Noteholders should note, in particular, that, in connection with any substitution effected pursuant to the modified Conditions, the Issuer will not be required to have regard to the consequences of such substitution for individual Noteholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and no Noteholder or Couponholder will be entitled to claim from the Issuer, the Guarantor or the substituted debtor any indemnification or payment in respect of any tax or other consequence arising from such substitution.

Full details of the background to, and the reasons for, the proposed modification and the Extraordinary Resolution are contained in an Explanatory Statement prepared by the Issuer and the Guarantor dated 10th October, 1988, copies of which are available for collection by Noteholders at the specified offices of the Agents for the Notes specified below. The Explanatory Statement contains, inter alia, (1) the form of the Substitution of Debtor Condition which will be incorporated into the Conditions if the Extraordinary Resolution is passed and (2) the form of the Deed of Guarantee by the Guarantor in, or substantially in, the form in which it will be executed in connection with any substitution of debtor effected in accordance with the Conditions as so modified (and having attached Conditions in, or substantially in, the form which would apply following any such substitution).

The Resolution to be proposed at the Meeting is as follows:-

EXTRAORDINARY RESOLUTION

"THAT this Meeting of the holders (the "Noteholders") of the A$40,000,000 15% Notes due 1990 (the "Notes") of Bremer Landesbank Finance (Curaçao) N.V. (the "Issuer") issued under a Fiscal Agency Agreement (the "Fiscal Agency Agreement") dated 24th April, 1987 made between the Issuer, Bremer Landesbank Kreditanstalt Oldenburg –Girozentrale– as guarantor (the "Guarantor"), Bankers Trust Company as Fiscal Agent (the "Fiscal Agent") and others, as amended, hereby:-

(1) assents to the modification of the Terms and Conditions of the Notes (as printed on the reverse thereof and the First Schedule to the Fiscal Agency Agreement) proposed in paragraph (b) of the Explanatory Statement issued by the Issuer and the Guarantor and dated 10th October, 1988, a copy of which has been produced to this Meeting and initialled by the Chairman hereof and by or on behalf of the Issuer for the purpose of identification;

(2) sanctions every modification, abrogation, variation, compromise of, or arrangement in respect of, the rights of the Noteholders and the holders of the Coupons appertaining to the Notes against the Issuer or the Guarantor involved in, or resulting from, the modification referred to in paragraph (1) of this Resolution or any substitution of debtor made pursuant to, and in accordance with, the Terms and Conditions of the Notes as so modified; and

(3) authorises the execution of a Supplemental Fiscal Agency Agreement in the form of the draft produced to this Meeting and for the purpose of identification signed by the Chairman hereof to give effect to the modification referred to in paragraph (1) of this Resolution."

The attention of Noteholders is particularly drawn to the quorum required for the Meeting and for an adjourned Meeting which is set out in paragraph 2 of "Voting and Quorum" below.

Copies of the Fiscal Agency Agreement (including the currently applicable Conditions), as amended, and of certain other relevant documents are available for inspection by Noteholders at the specified offices of the Agents for the Notes specified below.

VOTING AND QUORUM

1. A Noteholder wishing to attend and vote at the Meeting in person must produce at the Meeting either the Note(s), or a valid voting certificate or valid voting certificates issued by an Agent relative to the Note(s), in respect of which he wishes to vote.

   A Noteholder not wishing to attend and vote at the Meeting in person may either deliver his Note(s) or voting certificate(s) to the person whom he wishes to attend on his behalf or give a voting instruction (on a voting instruction form obtainable from the specified office of any of the Agents specified below) instructing an Agent to appoint a proxy to attend and vote at the Meeting in accordance with his instructions.

   Notes may be deposited until the time being 48 hours before the time appointed for holding the Meeting (or, if applicable, any adjourned such Meeting) but not thereafter with any Agent or (to the satisfaction of the Fiscal Agent) held to the Fiscal Agent's order or blocked to its satisfaction by Euro-clear or CEDEL S.A., for the purpose of obtaining voting certificates or giving voting instructions in respect of the relevant Meeting. Notes so deposited or held will be released at the conclusion of the Meeting (or, if applicable, any adjourned such Meeting) or upon surrender of the voting certificate(s) or, being not less than 48 hours before the time for which the Meeting (or, if applicable, any adjourned such Meeting) is convened, the voting instruction receipt(s) issued in respect thereof.

2. The quorum required at the Meeting is two or more persons present holding Notes or voting certificates or being a proxy or proxies and holding or representing in the aggregate more than one half of the principal amount of the Notes for the time being outstanding. If within half an hour from the time appointed for the Meeting a quorum is not present at the Meeting, the Meeting will be adjourned and the Extraordinary Resolution will be considered at an adjourned Meeting (notice of which will be given to the Noteholders). The quorum required to consider the Extraordinary Resolution at such an adjourned Meeting will be two or more persons present in person holding one or more Notes or voting certificates or being a proxy or proxies whatever the principal amount of the Notes so held or represented by them.

3. Every question submitted to the Meeting or the adjourned Meeting will be decided on a show of hands unless a poll is duly demanded by the Chairman of the Meeting or by one or more persons present in person and holding one or more Notes or voting certificates or being a proxy or proxies and holding or representing in the aggregate not less than one-fiftieth of the principal amount of the Notes then outstanding. On a show of hands every person who is present in person and produces a Note or voting certificate or is a proxy shall have one vote. On a poll every person who is so present shall have one vote in respect of each A$1,000 in principal amount of the Notes so produced or represented by the voting certificate so produced or in respect of which he is a proxy. On a show of hands a declaration by the Chairman of the Meeting that a resolution has been carried or lost shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

4. To be passed, the Extraordinary Resolution requires a majority in favour consisting of not less than three-quarters of the persons voting thereon upon a show of hands or, if a poll is duly demanded, then by a majority consisting of not less than three-quarters of the votes given on such poll. If passed, the Extraordinary Resolution will be binding upon all the Noteholders, whether or not present at such Meeting and whether or not voting, and upon all Couponholders.

AVAILABILITY OF DOCUMENTS

Copies of the Fiscal Agency Agreement, as amended, may be inspected, and copies of the Explanatory Statement, voting certificates and other documents referred to above may be obtained, by Noteholders from the specified office of any of the Agents given below.

FISCAL AGENT

Bankers Trust Company,
London Branch,
Dashwood House,
69 Old Broad Street,
London EC2P 2EE

PAYING AGENTS

Banque Indosuez Luxembourg,
39 Allee Scheffer,
L-2520 Luxembourg

Swiss Bank Corporation,
1 Aeschenvorstadt,
CH-4002 Basle,
Switzerland

This Notice has been approved by an authorised person for the purposes of the Financial Services Act 1986.

UK COMPANY NEWS

Correcting a geographical imbalance

Nick Bunker looks at the move by Royal Insurance into the US life market

IT MAY be a small step for the UK's Royal Insurance, but it represents a minor landmark for the $200bn US life insurance industry.

That is one way of summing up the significance of Friday's news that Royal, the biggest of the UK's composite insurers, is to spend $110m (£65m) to buy a little-known US life insurance company, Maccabees Mutual, based in a middle-class suburb north of Detroit.

Until now Maccabees has had only one claim to fame: its odd name, which it owes to a family of Hebrew warriors, celebrated in the Apocrypha to the Old Testament. The appellation was chosen because the Maccabees were a benevolent group who awarded part of the spoils of war to widows and disabled Israelites.

Last week's announcement promises to give Maccabees Mutual itself a place in history. Its decision to seek policyholder approval to turn itself from a mutual into a shareholder-owned company, specifically as a prelude to a takeover by Royal, is an unprecedented one. It signals the extent to which many US small or medium-sized life insurers are feeling the pinch from a squeeze on their profit margins driven by industry-wide competitive pressures.

For Royal, the logic of the deal is straightforward. "It's been known for a long time that they were going to try something in the US life market," says Mr Chris Pountain, insurance analyst with London stockbrokers County Natwest WoodMac.

In the 1980s, one of Royal's strategic goals has been to build up its international life assurance and financial services activities, to counterbalance the domination of its fortunes by cyclical property/casualty insurance business in the US and UK. Royal also has a target of expansion in the European Community – a goal which lay behind its recent, but abortive talks about a merger with Paris-based insurer Groupe Victoire.

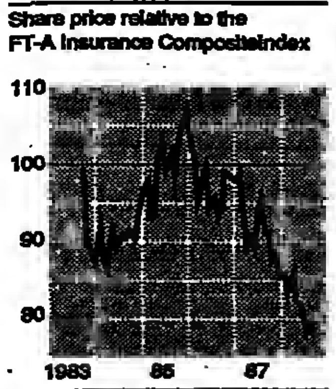
The tangible product of Royal's drive into life and financial services has been to increase its profits from those areas from only £4.4m in 1977 to £36.8m last year, out of total group pre-tax profits of £274m. The rise of its life assurance side has been spurred on by organic growth, by its 1985 £94m acquisition of Lloyd's Life, and, most recently, by its push into unit trusts and estate agency in the UK.

Yet, according to Mr Geoffrey Kellett, one of Royal's group general managers, Royal was conscious that more than 90 per cent of these profits were coming from the UK. This was a geographical imbalance it sought to correct with a suitable US acquisition. "Maccabees is just a little smaller than our ideal, but we wanted quality," Mr Kellett adds.

As regards Maccabees' thinking, few *aficionadoes* of US insurance are likely to be surprised at the idea of a medium-sized life company welcoming a big brother like the Royal.

Earnings of US life insurance companies are less violently cyclical than those of property/casualty insurers, but upheavals in the past decade have left the prospects for many looking decidedly uncertain.

Royal Insurance
Share price relative to the FT-A Insurance Composite Index



Chief among the upheavals was what industry observers call "a product explosion", detonated in 1979 by the invention of a revolutionary new type of policy, universal life. Intended to fight off competition from other investment products, such as mutual funds, universal life offered policyholders investment returns linked to interest rates available in the money markets. That held obvious attractions during a period – the late 1970s and early to mid 1980s – when interest rates were rising to new highs.

Yet now, the first flush of enthusiasm over universal life has ebbed away, and the industry has had to face new challenges.

Lower interest rates have eroded universal life's attractions: and life insurers have seen profit margins squeezed because, for competitive reasons, they can find themselves crediting more interest rates to the policies than they actually earn from their assets.

Alan Horsford, chief executive of Royal Insurance

Accounting changes proposed by the US Financial Accounting Standards Board may also create a problem, by requiring deferrals of earnings from some universal life products. And there have been proposals at a federal level to raise the tax take from life insurance by putting its fiscal treatment on a par with that of other types of investment.

Maccabees has had its share of the successes – and problems – of the universal life market, which now makes up most of its business. It issued its first universal life policy in 1981. It has also vigorously grown its sales among its relatively well-heeled clientele, 50 per cent of whom live in California. Since 1982, the total face value of Maccabees-issued life insurance has swollen from $7.5bn to $20bn, with 1987 premiums totalling $200m.

Royal says the trouble, however, was that as a mutual company Maccabees lacked resources to sustain that rate of growth. "They've got themselves into a bit of an expenses trap," says Mr Kellett.

This was brought home at Maccabees when profits fell from $8.7m in 1986 to $1.8m in 1987, owing to the costs of head office relocation and upgrading of computer systems to serve its 1,000 direct salesmen and 7,000 agents.

According to Royal, though, Maccabees has important underlying strengths, which it can now develop much more freely with capital backing from Royal – a view echoed by Mr Jules Pallone, Maccabees' chairman and president.

US life companies fight a constant battle against high marketing costs, high mortality rates, and the tendency for many customers to fall by the wayside, letting their policies lapse when they cannot keep up premium payments.

Royal believes that Maccabees has done well in all three areas, with an expense ratio which ranks it among the 20 most efficient life insurers.

Death claims arising from Acquired Immune Deficiency Syndrome (AIDS) are only one third of the industry average, and the lapse ratio is low: only 3.8 per cent of Maccabees' policyholders let them lapse in 1987, against an industry average of 12.9 per cent.

According to Royal, these advantages stem partly from the company's up-market clientele. The average face value of one of its policies is $200,000, four times the industry average, because of its customers' relative affluence.

The result, says Royal, is that Maccabees' salesmen have well-above-average productivity – another factor which helps hold down the company's expense ratios.

Minorco hits at disclosure reports

By Vanessa Houlder

MINORCO, the South African-controlled investment company that has bid £2.9bn for Consolidated Gold Fields yesterday responded angrily to press reports that there had not been full disclosure of the beneficial interests in the company.

Newspaper reports suggested that the South African interest in Minorco was as high as 71 per cent, after taking into account holdings believed to be linked with the Oppenheimer family.

If this was the case, the South African holding in Minorco would drop to 45 per cent if the bid succeeded - not 40 per cent as previously intimated by the company.

Minorco said yesterday that it took a "very serious view" of these reports. It stated that all the interests of the Oppenheimer family and Charter Consolidated – in which Minorco holds a 36 per cent stake - in Minorco have been fully disclosed.

Similarly, all the interests of Anglo American, the South African gold producer controlled by the Oppenheimer family, and its related company De Beers had been fully disclosed.

Furthermore, Minorco and all its associates have fully disclosed their interests in Gold Fields, it added.

The degree of South African ownership of Minorco has been a central issue in the arguments generated by this bid, which is the largest ever for a UK company.

In the Gold Fields' submission to the UK Office of Fair Trading, a summary of which was posted to shareholders on Saturday, it argued that South African control would create difficulties in some countries in getting permission for precious metals exploration.

It also suggested that Gold Fields' aggregates subsidiary, ARC, would be put at a disadvantage in bidding for contracts.

Cable and Wireless attacks Telephone Rentals record

By Vanessa Houlder

THE £284m bid battle for Telephone Rentals, the telephone equipment supplier, heated up over the weekend as Cable and Wireless, the bidder, attacked Telephone Rentals' five year record in its offer document.

Telephone Rentals' performance has been unexciting, with a decline in operating margins, flat earnings per share, and a fall in dividend cover, according to the document, which was posted on Saturday.

The arguments met with a brusque response from Sir Charles Ball, chairman of Telephone Rentals. "I am staggered. This kind of comment shows that they do not understand our business," he said.

"They are unwise to knock us," he added. "They know nothing about our business and cannot do anything about improving it. It questions their judgement about wanting to buy us."

In the document, Cable and Wireless highlights the decline in Telephone Rentals' operating margins from 23.3 per cent in 1983 to 18.9 per cent in 1987, along with extracts from the chairman's statement over the past two years blaming competitive pressures for the decrease in margins. It also points to the "flat" earnings per share record and a decline in dividend cover from about 2.3 in 1983 to 1.5 in 1987.

In response, Sir Charles said that the decline in margins was a result of the increased proportion of sales to rental income that followed liberalisation of the market together with a change in its geographical sales mix. The flatness of the earnings per share record was a result of tax changes on capital allowances, he said.

The Cable and Wireless document also pointed out that Telephone Rentals' share price has underperformed the FT-All Share index by 46.5 per cent. Its offer of 305p a share represents a premium of 45 per cent over Telephone Rentals' share price of 211p before the bid.

Furthermore, it argued, it would represent a substantially higher premium if the speculative element in the share price of Telephone Rentals - which has long been a subject of bid rumours - was excluded. A spokesman for Cable and Wireless estimated that, stripping out the element of bid speculation, Telephone Rentals' share price would probably have stood at just £1.75 before the bid.

Sir Charles said he disagreed strongly with this estimate. "It is a matter of opinion. They can use their imagination. A year ago before the market crash the price was £3.30," he said.

In its offer document, Cable and Wireless repeated its argument that the deal represented "compelling commercial logic". Telephone Rentals, one of the UK's largest suppliers of customer telecommunications equipment, was a natural fit, it said, with Cable and Wireless which is the parent company of Mercury, the only UK competitor of British Telecom in the field of mainstream telephone services.

On Friday, the shares in Telephone Rentals closed at 345p, which indicates that the market still expects either a rival bid or a higher offer from Cable and Wireless.

Bond continues sale of Bell assets

By Paul Cheeseright, Property Correspondent

BOND CORPORATION has continued the sale of assets of the Bell Group with the disposal of 58 commercial properties to the Barclay brothers, private property investors.

No price was disclosed but Banque Paribas, which negotiated the purchase for the Barclay brothers, said it "many millions".

Following a A$850m (£401m) bid, Bond took formal control of Bell last month.

The latest sale follows the disposal last month of a string of London theatres owned by Bell to Charmead, a London investment group. More property sales from the Bell portfolio are thought likely in the coming weeks.

The transaction with the Barclay brothers involves a portfolio held in the name of a company called Bentray. They are properties, Banque Paribas said, which had passed into the hands of Bell, when Mr Robert Homes a Court won control in 1982 of Associated Communications Corporation.

The properties are mostly connected to television studios and theatres.

Side by side with the successive sales of Bell assets, Bond Corporation is becoming increasingly active in the British property sector. Recently it became a partner of Imry Merchant Developers in the restoration and redevelopment of the St George's Hospital site at Hyde Park Corner in London.

Pilgrim House bid delay

By Clay Harris

PILGRIM HOUSE Group, the electronics company, said that its $254m (£151m) acquisition of the Kidde Fire Protection businesses from Hanson was unlikely to be completed before the end of November.

The deal has been delayed because of 42 "complex questions" submitted by the US Federal Trade Commission inquiring into the competitive effects of the transaction. A request from Pilgrim House and Hanson to expedite proceedings was turned down this week by the FTC.

As a result, Pilgrim House's vendor placing and open offer of 24.9m shares to raise £42.6m before expenses lapsed yesterday. Pilgrim House will review the financing of the deal once it is cleared by the US authorities.

BCPF increases TRIG stake

British Coal Pension Funds yesterday bought 20.3m more shares in TR Industrial & General to take their interest in Britain's third largest investment trust, to 71.2 per cent, writes Clay Harris.

The market purchases are intended to strengthen BCPF's hand in talks next week in which Touche Remnant will try to retain the TRIG management contract in spite of losing the £560.5m takeover battle.

TRIG yesterday reminded shareholders that BCPF's 129.5p cash offer was worth only 91.2 per cent of underlying net asset value. The offer remains open.

Decline at W&R Jacob

Lower pre-tax profits of I£830,000 (£704,000) were announced by W & R Jacob, Dublin-based biscuit maker, for the 28 weeks to July 15. The previous figure was £1.14m.

Earnings amounted to 6.5p (10.1p) but the interim dividend is increased to 2.8p (2.6p).

Mr M D McGuane, chairman, said the group's main subsidiary, Irish Biscuits, had made an excellent recovery following the five week strike at its Tallaght factory which cost the company over £500,000.

Turnover for the period was little changed at £26.29m (£26.38m). Currently, there was an improvement in demand in the domestic market.

Frank Gates up 25% to £1.25m

Frank G. Gates, main Ford dealer, achieved a 25 per cent rise in pre-tax profits in the six months to June 30. The taxable figure was £1.25m, against £997,000 in the comparable period.

Group turnover advanced 16 per cent to £38.36m (£33m). The chairman said that operating profits of the Ford dealerships had improved in about the same ratio as turnover, but that the higher increase in pre-tax profits was due to three factors – lower interest rates, the closing of the loss-making agricultural division and improved profits from contract hire and accident repairs.

August sales of new and used vehicles had exceeded all the company's expectations.

ROYAL TRUSTCO LIMITED
Yen 12,000,000,000 Reverse Dual – Currency Debentures Due 1992
Notice is hereby given that the Rate of Interest has been fixed at 14.41071% and that the interest payable on the relevant Interest Payment Date January 9, 1989 against Coupon No. 2 in respect of Yen 10,000,000 nominal of the Notes will be NZ$1,609.90.
October 10, 1988, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank CITIBANK

FINANCIAL TIMES STOCK INDICES

	Oct. 7	Oct. 6	Oct. 5	Oct. 4	Oct. 3	Sep. 30	1988 High	1988 Low	Since Compilation High	Since Compilation Low
Government Secs.	88.74	88.47	88.10	88.04	87.96	87.92	91.43	86.28	127.4	49.18
Fixed Interest	96.87	96.70	96.70	96.69	96.71	96.56	98.67	94.14	105.4	50.53
Ordinary	1490.4	1481.5	1471.7	1457.6	1455.8	1476.5	1514.7	1349.0	1926.2	49.4
Gold Mines	175.9	174.2	173.0	172.6	171.1	171.6	312.5	162.7	734.7	43.5
FT-Act All Share	956.27	952.83	946.81	937.08	935.09	946.27	978.58	870.19	1238.57	61.92
FT-SE 100	1844.7	1838.9	1826.3	1807.3	1802.6	1826.5	1879.3	1694.5	2443.4	986.9

DIARY DATES

Trade Fairs and Exhibitions: UK

October 10-16
International Motorcycle Show (01-385 1200)
Earls Court

October 11-13
International Chemical Industries - CHEMFAIR (01-686 4545)
Heathrow Penta Hotel

October 22-30
British International Motor Show (01-235 7000)
NEC, Birmingham

October 24-28
International Business Show (01-868 4499)
Earls Court

October 25-28
Building Exhibition - BUILDING (01-486 1951)
Earls Court

October 25-27
Fluid Handling Exhibition (01-680 7525)
Wembley Conference Centre

October 27-30
Home and Leisure Exhibition (0253 25252)
Winter Gardens, Blackpool

October 28-29
Cash & Carry Fashion Fair (01-727 1929)
Kensington Town Hall

November 1-3
Company Asset Leasing Exhibition and Conference (07072 75641)
Barbican

November 1-3
Northern Food and Drink Show (01-486 1951)
G-Mex Centre, Manchester

November 1-6
Kensington Antiques Fair (04868 22562)
Kensington Town Hall

November 3-6
London Money Show - MONEY (01-940 2244)
Olympia

November 8-10
World Trade Services (Freight & Export) Exhibition and Conference (01-727 1929)
NEC, Birmingham

Overseas Exhibitions

October 10-13
Gulf Information Technology Exhibition (01-930 3881)
Dubai

October 11-14
Computer Show (0869 244738)
Moscow

October 13
British Telecom/Coopers & Lybrand: The Great North conference (091 2613074)
Wynyard Hall, Billingham

October 13-16
International Fish Farming Techniques, Equipment and Products - ACQUACOLTURA (01-458 4860)
Verona

October 20-31
International Trade Fair SINTRA (01-834 5082)
Seoul

October 26-28
International Electronics Show- INTRON (Dublin 900600)
Dublin

November 6-8
Lingerie and Hosiery Show (01-499 7291)
Paris

November 7-11
International Agribusiness Exhibition and Conference - AGCHINA (01-940 3777)
Beijing

November 8-12
International Technical Exhibition (including engineering, welding and chemical educational textiles) (01-486 1951)
Jakarta

Business and management conferences

October 11
Confederation of British Industry/The Royal Institute of International Affairs: The external implications of the single European market (01-930 2233)
Centre Point, London WC1

October 13-14
International Herald Tribune/Oil Daily: The search for stability (01-242 1242)
Hotel Intercontinental, London

October 17
City Research Associates: The changing shape of the financial services market — successful survival beyond 1990 (01-833 1681)
Caledonian Hotel, Edinburgh

October 17-18
International Business Communications: Technology for retail banking (01-236 4080)
Inn on the Park, London W1

FINANCIAL

TODAY
COMPANY MEETINGS-
Dunton, 130, High Street, Chesham, 10.30
BOARD MEETINGS-
Finals:
Altwoods
Brown Shipley Sterling Cap. Fund
Colorgen
Goodwin
Highgate
Macdonald
Interims:
Arlington Secs
Barlows
Brown Shipley Intl. Bond Fund
Chillington
Dauphin
HCA Drilling
ISA Intl.
Lancs
London & Edinburgh
DIVIDEND AND INTEREST PAYMENTS-
Aerospace Engineering 1.58p
Argyll Group 3.5p
Britannia B. S. Fltg. Rate Nts. 1993 £255.45
Do. New Fltg. Rate Nts. 1993 £261.67
Brown & Jackson 0.1p
Gardiner Group 0.25p
M.&G. Far Eastern & Gen. Fd. 1.1p
Magnolia Group (Mouldings) 1.65p
Midland Bank 8.5p
Nationwide B. S. Fltg. Rate Nts. 1995 £332.45
Reed Executive 1.4p
Renaissance Hldgs. 1.2p
Rush & Tompkins 2.2p
Templeton, Galbraith & Hansberger 3.5cts
Vibroplant 1.65p
Ward Hldgs. 0.5p

TOMORROW
COMPANY MEETINGS-
Fleming Overseas Inv. Tst., 25, Copthall Avenue, E.C., 12.00
Gartmore European Inv. Tst., 16-18, Monument Street, E.C., 12.30
BOARD MEETINGS-
Finals:
BM Group
Lloyds Chemists
SPS Consultancy
Stanhope Props.
Interims:
Alexandra Workwear
Alfa-Laval
Baillie Gifford Tech.
Brooke Service
Kalt Energy
Lincat
Manchester Group
Pinetree
Telephone Rentals
DIVIDEND AND INTEREST PAYMENTS-
British Assets Trust 0.7p
Central American Bank for Econ. Integn. FRN's 1994 $188.1
Conversion 10pc 2002 5pc
Dale Electric Intl. 2.2p
Dev. Bank of the Philippines Gtd. FRN's 1990 $160.62
FKB 0.75p
Hongkong & Shanghai Banking FRN's 3rd Ser. $164.92
Investments NV Gtd FRN "B" 1997 Ex. to 1990 £21.24
Islington 12.95pc 2007 6.325pc
Macfarlane Grp. (Clansman) 1.75p
Marine Midland Fin. NV Gtd. FRN's 1994 $21.08
Microfilm 0.75p
National Australia Bank Sub FRN's $376.17
Slough Estates 3.3p
TT Group 2p

WEDNESDAY OCTOBER 12
COMPANY MEETINGS-
Abingworth, Mayfair Inter-Continental Hotel, Stratton Street, W., 12.15
Alumasc, Connaught Rooms, Great Queen Street, W.C., 10.30
Armitage Brothers, Armitage House, Colwick, Nottingham, 11.00
Peel, St. James's Club, Charlotte Street, Manchester, 12.00
BOARD MEETINGS-
Finals:
Alba
AMI Healthcare
Britannia Security
Castle Communications
Kingston Oil & Gas
Pochins
Portland Hldgs.
Sinclair (W.)
Tay Homes
Interims:
Abbey Life
Arts Europe
Cliff Resources
Lawrence (W.)
Johnson Group
Second Market Inv. Tst.
Tudor
UEI
DIVIDEND AND INTEREST PAYMENTS-
A.C. Hldgs. 3p
Applecard 4.5p
Barclays 10p
CEBC RU1.6
Do. 7½pc Pf RU0.75
Ireland 12½pc Ln 2008 6¼pc
Jarvis (J.) 1.1p
Peel 3.5p
Pleasurama 2.25p
Practical Investments 3.2p
Westminster Fashion 0.2p

THURSDAY OCTOBER 13
COMPANY MEETINGS-
Dale Group, Swallow Hotel, Carter Lane East, South Normanton, Derbyshire, 12.00
GT Venture Inv., 8, Devonshire Square, E.C., 12.00
London Merchant Securities, 33, Robert Adam Street, W., 12.00
Newmark (Louis), Connaught Rooms, Great Queen Street, W.C., 11.30
YRM, 24, Britton Street, E.C., 11.30
BOARD MEETINGS-
Finals:
Canadian Overseas Packaging Inds.
Personal Computers
Interims:
Dencora
Hi-Tec Sports
DIVIDEND AND INTEREST PAYMENTS-
Gnome Photographic 3p
Gordon Russell 2.4p
Leeds Permanent B. S. FRN's 1994 £331.19
RBC Intl. Cap. Fd. 27cts
Treasury 9pc Ln 2008 4.5pc
Woolwich B. S. FRN's 1993 £285.38

FRIDAY OCTOBER 14
COMPANY MEETINGS-
Associated British Engineering, 30/32 St. Mary Axe, E.C., 11.30
Jones, Stroud, Donington Thistle Hotel, East Midlands Airport, Castle Donington, Derby, 12.00
Marshalls Universal, Marshalls Hotel, Barnsley, 11.00
Second Alliance Trust, Meadowhouse, 64, Reform Street, Dundee, 12.30
BOARD MEETINGS-
Finals:
Honeycombe
Interims:
Biotechnology Inv.
Redland
Slingsby (H.C.)
Walker (J.O.)
DIVIDEND AND INTEREST PAYMENTS-
Admiral Computing 0.8p
Aldis 3p
Alliance Trust 5.75p
Do. 4pc Pf 1.4p
Do. 4½pc Pf 1.4575p
Do. 5pc Pf 1.75p
American Trust 1.35p
Aspen Comms. 3p
Australia (Commonwealth of) 9½pc Ln 2012 4.75pc
Blackpool 3.5p
CLF Hldgs. 0.73p
Cooper (Alan) 2.1p
Courts (Furnishers) 4.15p
Do. "A" 4.15p
Edinburgh Fund Managers 4p
Gartmore European Inv. Tst. 2.5p
Hallwood 20cts
Home Counties Newspapers 3.75p
Jones Stroud 4p
Lex Service 4p
Metrotek 3p
Newmark (Louis) 5.4p
Osterreichische Landerbank FRN's 1999 $185.66
Pearl Group 8p
Pentos 0.4p
Pifco 5.5p
Do. "A" 5.5p
Royal Trust Government Securities Fund 2.25p
Task Force 1.2p
UBDC Inv. Tst. 1p

SATURDAY OCTOBER 15
DIVIDEND AND INTEREST PAYMENTS-
American Brands 12½pc Ln 2009 6¼pc
BCE 51cts
British Assets Trust 4½pc Pf 1.575p
Do. "A" 5pc Pf 1.75p
Burdge, Pope & Co. 6¼pc Ln 3⅛pc
Do. 7½pc Ln 3¾pc
Federated Housing 9½pc Pf 4.75p
Finland (Republic of) 11½pc Ln 2009 5.75pc
Goode Durrant 3.5pc Pf 0.875p
Gowett Strategic Inv Tst 9½pc Deb 2017 4¾pc
Manders 5pc Pf 1.75p
Merton (London Borough of) 11½pc 2017 5¾pc
Met. Water Southwark & Vauxhall Water 5pc Deb 1.5pc
Norcros 15¾pc Deb 1990/95 7⅞pc
Occidental Pet. 62.5cts
Pacific Gas & Elec. 36cts
Peachey Prop. 10¾pc Deb 2015 5⅜pc
Do. 9.5pc Deb 2016 4¾pc
Quaker Oats 30cts
Renwick Grp 3.9pc Pf 1991/92 6.5p
Richards 4pc Pf 1.4p
Do. 8¼pc Pf 1.4375p
Treasury 5pc 1986/89 2.5pc
Wates, Mead & Trenwig 6pc Deb 1989/94 3pc

SUNDAY OCTOBER 16
DIVIDEND AND INTEREST PAYMENTS-
Rural Planning Services 1p
Swansea (City of) 13¼pc 2006 6⅝pc
Treasury 2½pc I-L 2020 £1.5623

APPOINTMENTS

Operations chief for Lex Service

■ Mr Peter Turnbull has become chief operating officer of LEX SERVICE. He was previously managing director in charge of Lex's automotive operations and will now also be responsible for the company's electronic components and computer distribution activities.

■ Mr Bernard Rouget has been appointed an executive director of COUNTY NATWEST. Mr Rouget, formerly director of operational audit, now takes on additional responsibility for compliance.

■ Mr Ian Newton has become managing director, product support, for SMITHS INDUSTRIES AEROSPACE & DEFENCE SYSTEMS.

■ Mr I.G. Hannah, chairman and managing director of the hotels division of Thistle Hotels, has been appointed to the board of SCOTTISH & NEWCASTLE BREWERIES.

■ The FLEMING MERCANTILE INVESTMENT TRUST has appointed Mr S.L. Keswick to its board. He is non-executive chairman of the Hong Kong based Jardine Matheson Group.

■ Mr Peter Holmes has become chairman of STORMGARD in place of Mr J.H. Murray, who has resigned. Mr Holmes was chief executive of RHP GROUP (now Pilgrim House Group).

■ Mr Peter King has been promoted from general manager to operations director of PST TRADING, an export trading and distribution company.

■ Mr Michael Chapman has joined the board of TORDAY & CARLISLE as an executive director. He will remain managing director of Oldham Signs, a subsidiary of Torday & Carlisle.

■ ABBEYCREST, designer, manufacturer and distributor of jewellery, has appointed Mr Paul Stevenson as its joint managing director and Mr John Sutcliffe its finance director.

■ On January 1 Mr William H. Morris, managing director of SAMPO INSURANCE CO (UK), becomes a full member of the board of Sampo International Insurance Co, Finland. Mr Kari Mäki, regional manager for the UK and Ireland, has been made deputy general manager.

■ Following the agreement that Commercial Union Assurance would acquire QUILTER GOODISON, Mr A.B. Wyand, general manager and director of Commercial Union, and Mr D.E.G. Roberts, managing director, Ashton Tod McLaren, a wholly owned subsidiary of Commercial Union, have been appointed respectively chairman and managing director of Quilter Goodison.

■ Mr Norman Lessels has been appointed chairman of ASA INTERNATIONAL HOLDINGS, the Scottish recruitment business. He is chairman of the Standard Life Assurance Co.

■ The BBA GROUP has appointed Mr Philip Gee as the managing director of Lexterten Holdings. He succeeds Mr David Llewellyn, for many years owner and chief executive. Mr Gee joins from Booker where his responsibilities included chairmanship of Holland and Barrett health food shops. Mr Ian Philips, previously group chief accountant at Storehouse Group, has become finance director. Mr Andrew Vicary has been made production director.

■ INTERNATIONAL BIO-SYNTHETICS has appointed Mr Charles Hull as chief executive of one of its subsidiary companies, Ward & Blenkinsop. He was previously manager of the Carrington site of Shell Chemicals UK.

■ The MONO GROUP, which recently staged a management buy-out from Gallaher, has appointed the following to the group board: Mr John Speirs, chairman, Mr Kenneth Boddington, chief executive, Mr Anthony Fletcher, finance director, Mr William Garvey, Mr Lindsay Mathewson and Mr Philip White, directors. Mr Emyr Hughes and Mr John Herbert have been made non-executive directors.

CONTRACTS

Kensington development

TEAM MANAGEMENT AND PROJECTS has been awarded contracts worth over £35m. The jobs represent a wide range of work including refurbishment, offices and industrial developments.

The largest of the contracts is at Kensington Gardens Square in central London where Team will manage a £16m redevelopment for Gable House Estates, part of the Ladbroke organisation. The project calls for the construction of 139 flats together with retail and light industrial studio units. Demolition and piling has begun and there is a contract programme of 22 months.

In Thurrock, the company has a £10m design and management contract with the National Freight Consortium Group. The project involves construction of a 200,000 sq ft bay chill store and distribution centre for margarine manufacturers Van Den Burghs & Jurgen. The 21 metre high structure is unusual in that it will be set on a post-tensioned ground slab. The scheme, on a 10 acre site, includes two-storey offices and four standby power generators.

Team also has two design and build contracts in Hayes, Middlesex. The first, at £2m, is for Abacus Developments and involves construction of a warehouse and distribution centre with two-storey offices to by occupied by Rymans. The other, a warehouse and light industrial unit development with offices, is for the Lysander Group, worth £600,000.

Work has begun on a £1.6m "design and management" refurbishment in Leicester Square. This is an 18-week fast track contract and involves substantial internal demolition work to make way for a Kentucky Fried Chicken restanrant and offices.

New offices are to be built at Pelham Street, London under a £1.2m management contract. Team's client here is the Trustee Smith Charity. Further north, in White Lion Street, the company will design and build three-storey offices at a cost of £1.5m.

Mixed bag for Tilbury

The TILBURY GROUP has been awarded contracts worth in excess of £33m during the last three months. United Kingdom Construction and Engineering Co has been awarded orders worth almost £18m which include a £10m plus contract for British Nuclear Fuels at the THORP HESP project at Sellafield, Cumbria. This involves the installation of pre-assembled modules, vessels and high integrity pipework.

Three contracts were awarded at the Shell UK Stanlow refinery. One, valued at £3.5m, is for Fluor Daniel and consists of the installation of 350 tons of steel and 174 items of equipment, together with the erection of 36,000 metres of pipework. The second, valued at £1.2m, involves 20,000 metres of carbon steel pipework for offsite fabrication related to the HFA project. A third contract for Shell UK at its ADIP plant, Stanlow, valued at £500,000 is for carbon steel pipework fabrication and plant/equipment installation.

At Wytch Farm in Dorset, UKC has won a £1.2m contract from Foster Wheeler Energy on behalf of BP Petroleum Development for its Furzebrook rail terminal. UKC will be responsible for all steelwork, painting, lagging, fireproofing and minor civil works.

Westpile has been awarded contracts worth £10.5m. A Hardrive piling contract worth £1.6m and a shell piling contract worth £485,000 were awarded at an Asda regional distribution centre in Dartford.

Retailing projects include a shell piling contract, valued at £174,000, for Safeways at Neath, a C.F.A. piling contract, valued at £143,000, for J Sainsbury at Streatham, and a Hardrive piling contract, value £265,000, for Tesco at Poole.

Almost £6m worth of contracts have been awarded to Tilbury Construction. A £2.4m contract was awarded by Berkshire County Council for one kilometre of inner distribution dual carriageway in Reading, together with a 28 metre span river bridge. Thames Water has placed a £2.4m contract for a sewage treatment works' extension at Banbury.

£50m work for Taylor Woodrow

TAYLOR WOODROW CONSTRUCTION (NORTHERN) has won, and is concluding negotiations for, orders with a combined value £50m. They include a £20m turnkey contract for the Yorkshire Water Authority for new effluent treatment works in Sheffield, a £5m target cost turnkey contract for the supply of water and effluent treatment for the Coca Cola factory in Wakefield, an £8m design and build superstore for Tesco in Southport, and a £17m regional distribution warehouse for ASDA.

North Wales superstore

COSTAIN CONSTRUCTION, a subsidiary of Costain Group, has been awarded a £4.9m contract by Tesco Stores to build a 4,850 sq metres superstore on the Old Station Yard, Chester Street, Mold, North Wales.

The construction of the steel framed building will be on concrete pad foundations supporting reinforced concrete floor slabs and will include a precast concrete suspended first floor slab at mezzanine level. The building will have brick clad elevations with glazed shop fronts. A Trocal flat roof structure will feature a slated Mansard roof shaped parapet surround.

Internally, the store is to be fitted out with all necessary machinery, shelving and retailing equipment. In addition to a main sales area, the store will also comprise warehousing facilities, food preparation areas, an in-store bakery and coffee shop.

Externally, Costain will construct car parking for about 380 cars, retaining walls, a service yard, pedestrian paving, circulation roads, landscaping and all necessary services and drainage. The 51-week programme allows for completion by the end of July.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)F

[illegible]

Aetna Unit Trusts Ltd (1600)F

[illegible]

Anthony Wieler Unit Tst Mgmt Ltd (1000)F
19 Widegate St, London E1 7HP 01-377 1010

Growth Income	5	102.4	104.7	111.4	1.4
Do Accum	5	144.0	147.2	156.6	1.4
Quarterly Income	5	50.61	52.86	56.25	7.0

Arkwright Management (1400)F
1 King St, Manchester M60 3AH 061-832 0242

Growth Oct 4	5	91.95	91.95	97.80	2.40
Income Oct 4	5	46.35	47.13	50.14	4.91

[illegible]

London & Manchester (Tst Mgmt) Ltd (1000)H
Winslade Park, Exeter EX5 1DS 0392 282673

[illegible]

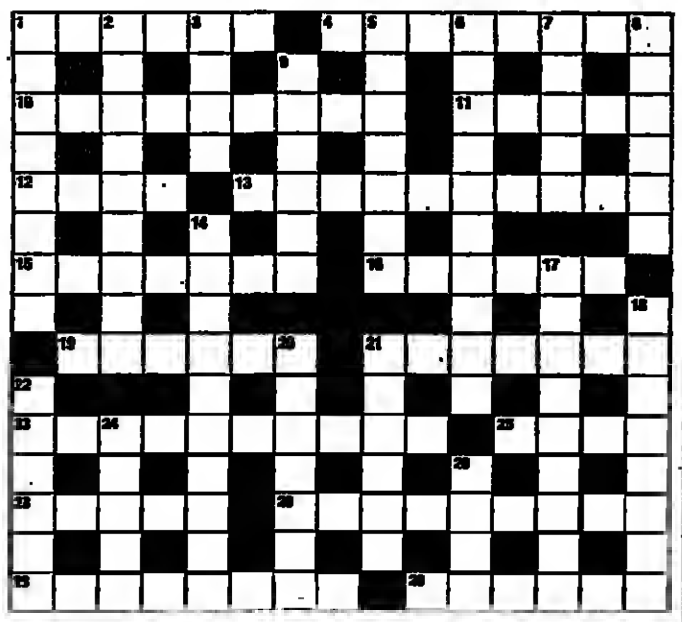
I.G INDEX LTD, 9-11 GROSVENOR GARDENS, LONDON SW1W 0BD
Tel: 01-828 7233/5699 Reuters Code: IGIN, IGIO

FT 30	FTSE 100	WALL STREET
Oct. 1487/1496 +11	Oct. 1841/1851 +8	Oct. 2130/2142 +27
Dec. 1489/1498 +9	Dec. 1843/1853 +5	Dec. 2135/2147 +26

Prices taken at 5pm and change is from previous close at 9pm

CROSSWORD

No. 6,755 Set by QUARK



ACROSS

1 One's thrown having to debate endlessly (6)
4 Meticulous account by man of the cloth (8)
10 Run down, e.g. tired an' beaten (9)
11 Within part of West Ham, Ongar and Epping (6)
12 Nobleman almost skipping New York (4)
13 Writing – quite a range based on the Bible (10)
15 Tabitha moves round the environment (7)
16 It's observed at court (6)
19 Once a temporary dwelling area (6)
21 So tired? Could be enlivened by this (7)
23 Destroyed open vessel, bunk losing top (10)
25 An old convict recalled a celebration (4)
27 Earthy mineral that can be burnt (5)
28 I've Rugby Union trip being arranged causing invasion (9)
29 Early morning callers (8)
30 Plant that's up a net, twisting (6)

DOWN

1 and 22 To shun part of newspaper is to show irresponsibility (5,3,6)
2 Cover for one who cahnges? (6,3)
3 Press – imperative without a book? (4)
5 Elemental scientist (7)
6 Undated letters surprisingly include a number not dealt with (10)
7 It's quite an affair with row 150 missing (5)
8 Bury last bit of waste flung out (6)
9 It brings good luck to many at the races (6)
14 Urchin from western town (one horse?) (6,4)
17 Detachment that has been called splendid (9)
18 Notice joint account initially with money attached (8)
20 Scare if in one man's environment (7)
21 Make mistake in cast? Must be the drink (6)
22 See 1 down
24 Bender is breaking up below (5)
26 Some crepe (elastic) used as a weapon (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday October 22.

GUIDE TO UNIT TRUST PRICING

The data included under the Authorised section of the FT Unit Trust Information pages is being expanded to improve the service to readers and to conform with new legislation.

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♠ - 1101 to 1400 hours; ♣ - 1401 to 1700 hours; ♦ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that prices are set on a historic basis. This means that, unless there has been an intervening portfolio revaluation, investors can normally buy and sell units today at the prices appearing in the newspaper which have been set on the basis of yesterday's asset value.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out last Friday.
Other explanatory notes are contained in the last column of the FT Unit Trust Information pages.

مكان

FT UNIT TRUST INFORMATION SERVICE

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Norwich Union Asset Management Ltd
PO Box 124, Norwich NR1 1JS 0603 685986

	Bid Price	Offer Price	Yield Gross	City-line
NUAM Funds				
Managed Fund	54.7	57.6	–	43191
Stock Market Mngd Fund	52.2	55.0	–	43192
Equity Fund	56.6	59.6	–	43193
International Fund	48.6	51.2	–	43194
European Fund	49.8	52.5	–	43195
North American Fund	46.5	49.9	–	43196
Pacific Fund	57.0	60.9	–	43197
Property Fund	66.4	69.9	–	43198
Fixed Interest Fund	52.8	55.6	–	43199
Index linked Sec Fund	51.9	54.7	–	43200
Deposit Fund	54.4	57.3	–	43201
NUAM Retirement Plans				
Mixed Fund	57.9	61.0	–	43202
UK Ordinary Share Fd	65.3	68.7	–	43203
International Fund	49.0	52.5	–	43204
Property Fund	64.5	67.9	–	43205
Fixed Interest Fund	56.7	59.6	–	43206
Index Linked Sec Fund	52.6	55.4	–	43207
Deposit Fund	58.4	61.4	–	43208
NUAM (MF)				
Managed Fund	744.6	783.8	–	43209
Equity Fund	1474.6	1552.3	–	43210
Property Fund	413.8	435.6	–	43211
Fixed Interest Fund	390.1	410.7	–	43212
Deposit Fund	222.5	234.3	–	43213
International Fund	126.6	133.3	–	43214
Index Linked Sec Fund	52.1	64.9	–	43215

Norwich Union Life Insurance Soc.
PO Box 149, Norwich NR1 3NG 0603 622200

	Bid Price	Offer Price	Yield Gross	City-line
Unitised Pensions				
With Profits Fd.	106.53	112.13	–	43216
Managed Fd.	117.07	123.23	–	43217
UK Equity Fd.	120.84	127.20	–	43218
International Fd.	118.34	124.57	–	43219
European Fd.	112.32	118.23	–	43220
North American Fd.	118.58	124.82	–	43221
Pacific Fd.	109.03	114.77	–	43222
Property Fd.	117.32	123.50	–	43223
Fixed Int Fd.	100.33	105.61	–	43224
Intl Bond Fd.	106.85	112.48	–	43225
Bldg Soc Dep Fd.	101.88	107.25	–	43226
Pensionvestor* & Unit-Linked Plan*				
Fixed Interest Fund	281.0	295.8	–	43227
Index-Linked Sec Fund	147.7	155.4	–	43228
Ordinary Share Fund	465.8	490.3	–	43229
International Fund	127.4	134.1	–	43230
Property Fund	199.1	209.6	–	43231
Deposit Fund	182.5	192.1	–	43232
Mixed Fund	318.5	335.2	–	43233
Norwich Units September 15		799.3	–	43234

*Prices as at October 4

Pearl Assurance (Unit Funds) Ltd
252 High Holborn, London WC1V 7EB 01-405 8441

	Bid Price	Offer Price	Yield Gross	City-line
Prop. Dist. (Gross)	176.6	185.9	–	43235
Prop. Acc. (Gross)	285.8	300.9	–	43236
Equity (Gross)	665.9	701.0	–	43237
Managed (Gross)	477.6	502.8	–	43238
Prop. Acc. (Net)	132.1	139.1	–	43239
Equity (Net)	155.8	164.0	–	43240
Managed (Net)	146.8	154.6	–	43241
International (net)	133.0	140.0	–	43242
Gilt & Fxd Interest	101.0	106.4	–	43243
Money Fund	101.2	106.5	–	43244
Pearl Assurance (Unit Linked Pens) Ltd				
Ret Man (Series 1)	453.5	477.4	–	43245
Ret Man (Series 2)	153.8	161.9	–	43246
Ret Man (Series 3)	101.2	101.2	–	–
Ret Cash	125.4	132.0	–	43247

FT UNIT TRUST INFORMATION SERVICE

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

BRITISH FUNDS—Contd

Undated

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
359	Consols 4pc	44¼	–	27.6	1Feb 1Aug	1299
1,909	War Loan 3½pc‡‡	39½	–	25.4	1Jun 1Dec	1352
154	Conv. 3½pc '61 Aft.	60¾	–	25.8	1Apr 1Oct	1243
56	Treas. 3pc '66 Aft.	32¾	–	1.9	5Apr 5Oct	1324
276	Consols 2½pc	27¾	–	1.9	5Ja Ap Jul Oct	1238
475	Treas. 2½pc	27¾	–	25.8	1Apr 1Oct	1315

Index-Linked

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
500	Treas 2pc IL '90(84.6)	122	[illegible]	20.6	[illegible]	[illegible]
650	Do. 2pc '92‡‡(97.8)	102	[illegible]	17.8	[illegible]	[illegible]
400	Do. 2'94 (102.9)	94	3.44	–	[illegible]	–
1,000	Do. 2pc '96(67.9)	129	3.47	10.8	16Mar 16Sep	[illegible]
900	Do 2½pc '01(78.3)	115	3.86	18.8	[illegible]	[illegible]
800	Do. 2½pc '03(78.8)	[illegible]	3.88	13.4	[illegible]	[illegible]
1,200	Do. 2pc '06(69.5)	[illegible]	3.87	13.6	[illegible]	[illegible]
950	Do. 2½pc '09(78.8)	107	3.87	13.4	[illegible]	[illegible]
1,350	Do. 2½pc '11(74.6)	111	3.87	18.7	[illegible]	[illegible]
1,100	Do. 2½pc '13(89.2)	92	[illegible]	11.7	16Feb [illegible]	[illegible]
1,700	Do. 2½pc '16(81.6)	[illegible]	[illegible]	20.6	[illegible]	[illegible]
1,400	Do. 2½pc '20(83.0)	[illegible]	[illegible]	9.9	[illegible]	[illegible]
900	Do. 2½pc '24‡‡(97.7)	82	[illegible]	10.6	17Jan [illegible]	[illegible]

**Prospective real redemption rate on projected inflation of 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for January 1988:103.3 and for August1988:107.9

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

AMERICANS—Contd

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
6,329.3	Texaco $6.25	26¼	$$3.00	6.8	4.8	Mr Je Se De	4200
2,315.1	Texas Instr. $1	23⅛xd	72c	1.8	22.9	JAJO	5033
6,512.7	Time Inc. $1	60½xd	$1.00	0.9	25.8	Mr Je Se Dc	4234
1,946.8	Transamerica $1	20⅞xd	$1.84	5.3	30.9	Ja Ap Jn Oc	4289
563.9	TRINOVA Corp.	16⅝xd	64c	2.3	10.8	Mc Je Se De	4309
4,956.4	USX $1	16¼	$1.20	4.3	2.8	Mr Je Se De	4380
3,285.3	Utd. Technologies	24⅛xd	$1.60	3.8	24.8	Mr Je Sp Dc	4381
6,837.7	US West ‖	34⅛	$3.52	6.1	13.4	Fb My Ag No	—
5,554.1	Waste Management $1	24⅝	48c	1.1	16.9	Ap Jly Oc Jan	4439
1,964.4	Whirpool $1	13⅝	$1.10	4.2	25.01	Mr Je Se De	—
2,187.9	♦Woolworth $3½	33⅝	$1.64	2.9	19.11	Mr Je Se De	4540

CANADIANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
—	ABM Gold Corp ‖	[illegible]	—	—	—	—	—
—	♦Abbot Energy Corp	[illegible]	—	—	—	—	—
590.4	♦Amer. Barrick Res.	[illegible]	—	—	—	—	—
—	American Lightwave	[illegible]	—	—	—	—	—
—	♦Armeno	[illegible]	—	—	—	—	—
—	Augmitto Explo.	[illegible]	—	—	—	—	—
1,468.5	Bk. Montreal ‖	[illegible]	$2.00	6.9	8.8	Fb My Ag Nr	—
1,234.0	Bk. Nova Scot. ‖	[illegible]	76c	5.0	28.9	Ja Ap Jn Oc	—
4,897.1	BCE ‖	[illegible]	$2.44	6.5	6.6	Ap Jy Dc Ja	—
250.1	♦Bow Valley ‖	[illegible]	♦40c	3.2	15.12	May Nov.	—
865.6	♦Brascan ‖	[illegible]	88c	3.4	28.10	Ja Ap Jy Oc	—
43.7	♦Breakwater Res.	[illegible]	10c	2.5	—	—	—
1,878.1	Can. Imp Bank ‖	[illegible]	$1.16	4.7	29.6	Fe My Au No	—
1,220.1	Can. Pacific ‖	10⅝xd	60c	2.7	28.9	July Jan.	—

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS—Contd

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INDUSTRIALS (Miscel.)—Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

صورة من الأصل

LONDON SHARE SERVICE

LEISURE—Contd

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES—Contd

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND—Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Contd

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

For Publishing, Hldgs see Intl. Comm & Data

2.52	Rentaminster 5p... y	62	u1.0	2.2	–	–	
9.51	Royal Sovereign 10p. y	215xd	†4.6	2.9	3.10	May Nov	
1.72	Scott Pickford 10p... y	24½		3.1	16.9	–	
6.67	Seacon Hldgs....... y	96	21.0	1.4	19.9	–	
1.37	Sonic Tape 2½p.... y	11	n–	–	–	–	
6.63	Staks Hldgs. 5p.... y	24	–	–	–	–	
4.99	Swanyard Studios 1p y	3½	–	–	–	–	
24.0	Takare............ y	275	b1.0	0.5	–	–	
14.9	Theme Holdings...... y	66	♦1.1	2.2	25.4	June Dec	
3.14	Tomorrows Leisure 20p y	28	–	–	–	–	
10.6	Tullow Oil 10p..... y	17	–	–	–	–	
4.43	UPL Group 10p..... y	118	L2.41	2.9	23.5	–	
6.09	Unit Group........ y	150	5.0	4.4	4.7	Jan July	
7.60	Video Tape Rec 5p. y	118	L2.3	2.8	9.5	–	
0.77	Wilton Group...... y	5xd	–	–	–	–	

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ● USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- ‡ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ♦ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- $ Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs ★★ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p.... y	71xd	......
Craig & Rose £1.. y	698	......
Finlay Pkg. 5p.... y	85xd	–1
Holt (Jos) 25p.... y	£11⅛xd	–⅛

IRISH

Cap. 8½% Ln. 1991..	£98½	......
9pc Cap Ln. 1996..	£105	......
Fin. 13% 97/02..	£121½	......
Arnotts.............. y	392	......
Carrol Inds.......... y	160	......
Grafton Grp......... y	134	......
Hall (R. & H.).......	158	......
Heiton Hldgs....... y	63	+2
Irish Ropes.......... y	160	......

TRADITIONAL OPTIONS
3-month call rates

Industrials	p
Allied-Lyons	35
Amstrad	16
BAT	36
BOC Grp	36
BSR	8
BTR	22
Barclays	35
Beecham	42
Blue Circle	38
Boots	19
Bowaters	35
Brit Aerospace	35
Brit. Telecom	22
Burton Ord.	21
Cadburys	32
Charter Cons	30
Comm Union	34
Courtaulds	34
FKI Babcock	12
FNFC	25
Gen Accident	85
GEC	13
Glaxo	85
Grand Met	45
GUS 'A'	95
Guardian	85
GKN	28
Hanson	12
Hawker Sidd	48
ICI	72
Jaguar	26
Ladbroke	38
Legal & Gen	25
Lex Service	33
Lloyds Bank	26
Lucas Inds	50
Marks & Spencer	17
Midland Bk	57
Morgan Grenfell	30
NEI	10
Nat West Bk	52
P & O Dfd	52
Plessey	16
Polly Peck	38
Racal Elect	52
RHM	30
Rank Org Ord	64
Reed Intnl	36
STC	24
Sears	11
TI	28
TSB	9
Tesco	14
Thorn EMI	60
Trust Houses	22
T&N	17
Unilever	42
Vickers	14
Wellcome	45

Property	
Brit Land	38
Land Securities	52
MEPC	52
Peachey	50

Oils	
Brit. Gas	15
Brit Petroleum	24
Burmah Oil	58
Charterhall	3
LASMO	48
Premier	7½
Shell	95
Ultramar	26

Mines	
Cons Gold	95
Lonrho	20
RTZ	35

A selection of Options traded is given on the London Stock Exchange Report Page

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £940 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Political risks but economic stability

By Colin Millham

LAST WEEK was spent waiting for the September US employment data, and this week will be spent waiting for Thursday's US trade figures for August.

This is likely to be put forward as another reason for the market to do very little. The dollar is only likely to react to the trade figures, if the forecast for the deficit is completely wrong, but two major factors will otherwise keep the currency in a narrow range.

These are the attitude of the Group of Seven, and doubts about the outlook for inflation, given the weakness of oil prices on one side, and the strength of world economic growth on the other.

Co-ordinated intervention to sell the dollar by major central banks followed a G7 meeting in West Berlin two weeks ago. It was not particularly aggressive, but indicated agreement among the major industrial nations that the dollar should not go any higher.

It may also be noted that ministers from the Organisation of Petroleum Exporting Countries met in Madrid at the same time the G7 gathering was taking place.

Opec was trying to stop the slide in oil prices, which at that time had taken values down to $13 a barrel.

Since then oil prices have touched $11 a barrel, and Dr Subroto, secretary-general of Opec has warned that if Saudi Arabia continues to raise output prices could slump to $5.

This suggests that world inflation could be much less of a problem next year than once feared, and is encouraging stability in the currency markets.

Strong growth among G7 members, including the US, led to speculation about a tightening of the Federal Reserve's monetary stance.

But if oil prices remain weak one of the biggest factors behind inflationary pressure will be reduced, and there should be no need to raise interest rates.

If the customs based US trade deficit remains under $10bn on Thursday there is unlikely to be much reaction from the market. A deficit of $9.5bn on a customs basis is expected for August, compared with $8.1bn in July. On the old basis (CIF) the August deficit is likely to be $11.5bn, against $9.5bn in July.

In the short term the potential for dollar weakness may be greatest, because if the deficit is unexpectedly high the dollar could fall through technical resistance at around DM1.8550, but if the deficit is lower than in July the central banks are likely to step in again. Last month's intervention prevented the dollar moving above DM1.89.

Assuming no major shock from the trade data the dollar and US interest rates seem set to remain stable in the run up to the US presidential election.

Barclays de Zoete Wedd makes the dollar one of two favourite currencies on a strategic view, but admits the greatest risk to the currency is politics.

BZW expects a steady reduction in the US trade deficit, to a visible $75bn shortfall in 1989 and a current account deficit of $95bn.

Morgan Grenfell agrees the US trade deficit is on a slowly improving trend, but that the current account deficit will be as high as $125bn in 1989.

BZW's other favourite currency is sterling, and not only because London has a 7 p.c. interest rate advantage over Frankfurt.

The market will pay close attention to the speech of Mr Nigel Lawson, the Chancellor, to the Tory Party conference this Thursday, and his Mansion House speech the following Thursday.

BZW says if excess demand, rather than competitiveness, is the reason for the current account problem, Mr Lawson will not allow a devaluation of the pound.

It could take two or three months before it is clear whether 12 p.c. base rates have put a brake on consumer spending, but if the market forces 13 p.c. in the meantime, then there is a chance of sterling testing DM3.25 again.

£ IN NEW YORK

Oct.7	Close	Previous Close
£ Spot	1.6980-1.6990	1.6925-1.6930
1 month	0.57-0.56pm	0.58-0.56pm
3 months	1.57-1.55pm	1.61-1.60pm
12 months	4.22-4.12pm	4.54-4.39pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

[illegible]

CURRENCY RATES

[illegible]

*All SDR rates are for Oct.6

CURRENCY MOVEMENTS

[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1975=100) *Rates are for Oct.6.

OTHER CURRENCIES

[illegible]

*Selling rate

EURO-CURRENCY INTEREST RATES

[illegible]

Long term Eurodollars: two years 9¼-9 per cent; three years 9⅛-9¼ per cent; four years 9⅛-9½ per cent; five years 9¾-9⅝ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

POUND SPOT- FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

[illegible]

MONEY MARKETS

Danger of higher rates recedes

RECENT EVENTS appear to have reduced the risk of higher world interest rates.

Oil imports by the industrialised countries are a major source of inflation, and last week oil prices fell to their lowest levels for over two years.

Dealers were already suggesting that this would prevent the Federal Reserve tightening its monetary policy, when weaker than expected US employment data appeared to settle the matter on Friday.

September unemployment fell to 5.4 p.c. from 5.6 p.c., but non-farm payrolls rose by only 255,000, against forecasts of 280,000 to 300,000. Growth in August payrolls was revised down to 169,000 from 219,000.

These figures do not point to overheating in the economy, and if the US trade deficit is shown to have widened in August, the US authorities will have another reason for not raising interest rates.

Apart from economic factors it hardly seems likely the Federal Reserve will wish to increase rates so close to the US presidential election.

The West German Bundesbank also has no reason to change interest rates. The D-Mark is holding steady against the dollar, but looks potentially strong within the EMS. Monetary growth appears to be slowing, with M3 growth now only slightly above the official target of 3 p.c. to 6 p.c., but the trend in inflation is upwards.

European countries, linked to West Germany through the EMS, are unlikely to move on rates ahead of the Bundesbank, and in the UK the authorities are still waiting to find out the full impact of the rise in bank rates rates to 12 p.c. from 7 p.c.

MONEY RATES

NEW YORK (4pm) — Treasury Bills and Bonds

[illegible]

Fed.funds at intervention...	8¼	Two year	8.27	30-year	8.81

Oct.7	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	4.75-4.85	4.80-4.95	4.80-4.95	5.00-5.15	5.10-5.25	5.00
Paris	7¼-7⅜	7⅜-7½	7⅝-7¾	7⅞-7½	7⅞-8	7.00
Zurich	1⅝-1⅞	3-3¼	-	3⅜-3¾	-	-
Amsterdam	5.37-5.50	5.37-5.43	-	5.50-5.56	-	-
Tokyo	4.03125	4.28125	-	4.40625	-	-
Milan	10¼-10¾	11-11½	-	11¼-11⅝	-	-
Brussels	5.60	7⅜-7⅞	-	7⅜-7⅞	-	-
Dublin	7⅜-7⅝	7⅜-7⅝	7⅜-7⅝	7⅜-7⅝	7½-7¾	-

LONDON MONEY RATES

Oct.7	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	11⅞	12	12	12	12	11⅞
Interbank Bid	11⅝	11⅝	11⅞	11⅞	11⅞	11⅞
Sterling CDs	-	-	11⅞	11⅞	11⅞	11⅞
Local Authority Deps.	12¼	12	11⅞	11⅞	11⅞	11⅞
Local Authority Bonds	-	-	11⅞	12⅛	12½	12½
Discount Mkt Deps.	12	11⅞	11½	11½	11½	-
Company Deposits	-	-	12	12	11⅞	11⅞
Finance House Deposits	-	-	11⅞	12	11⅞	11⅞
Treasury Bills (Buy)	-	-	11⅝	11⅞	-	-
Bank Bills (Buy)	-	-	11⅝	11⅝	11⅝	-
Fine Trade Bills (Buy)	-	-	12⅛	12¼	11⅞	-
Dollar CDs	-	-	8.25-8.20	8.50-8.45	8.65-8.55	8.65-8.60
SDR Linked Dep Offer	-	-	7½	7⅝	7½	7⅝
SDR Linked Dep Bid	-	-	6⅞	7⅛	7⅛	7⅛
ECU Linked Dep Offer	-	-	7⅞	7⅞	7⅞	7⅞
ECU Linked Dep Bid	-	-	7⅝	7⅝	7⅝	7⅝

Treasury Bills (sell); one-month 11⅜ per cent; three months 11⅞ per cent; Bank Bills (sell): one-month 11⅜ per cent; three months 11⅜ per cent; Treasury Bills; Average tender rate of discount 11.6039 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day Sept.30, 1988. Agreed rates for period October 26, 1988 to November 25, 1988, Scheme I: 13.12 p.c., Schemes II & III: 13.41 p.c. Reference rate for period Sept.1, 1988 to Sept.30, 1988, Scheme IV&V: 12.234 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 12 from October 1, 1988: Bank Deposit Rates for sums at seven days notice 3.75 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 7½ per cent; one-three months 9 per cent; three-six months 9 per cent; six-nine months 9½ per cent; nine-twelve months 9½ per cent; Under £100,000 7 per cent from July 5, 1988. Deposits withdrawn for cash 5 per cent.

FT LONDON INTERBANK FIXING

(11.00 a.m. Oct.7) 3 months US dollars		6 months US Dollars	
bid 8½	offer 8⅝	bid 8⅝	offer 8¾

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

	Oct.7	Sep.30		Oct.7	Sept 30
Bills on offer	£400m	£400m	Top accepted rate of discount	11.5316%	11.4313%
Total of applications	£1195m	£1609m	Average rate of discount	11.4603%	11.3908%
Total allocated	£400m	£400m	Average yield	11.7974%	11.7237%
Minimum accepted bid	£97.125	£97.150	Amount on offer at next tender	£400m	£400m
Allotment at minimum level	18%	45%			

WEEKLY CHANGE IN WORLD INTEREST RATES

LONDON	Oct.7	change	NEW YORK	Oct.7	change
Base rates	12	Unch'd	Prime rates	10	Unch'd
7 day Interbank	11⅞	-⅛	Federal Funds	8¼	-⅛
3-month Interbank	11⅞	-⅛	3 Mth. Treasury Bills	7.47	-0.02
Treasury Bill Tender	11.4603	+0.0695	6 Mth. Treasury Bills	7.79	-0.06
Band 1 Bills	11⅞	Unch'd	3 Mth. CD	8.475	Unch'd
Band 2 Bills	11⅞	Unch'd	FRANKFURT		

[illegible]

LEGAL NOTICES

FT-ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of stocks per grouping	FRIDAY OCTOBER 7 1988 US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	THURSDAY OCTOBER 6 1988 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1988 High	1988 Low	Year ago (approx)
Australia (91)	139.13	+1.0	121.44	115.72	4.25	137.80	120.64	114.89	152.31	91.16	169.81
Austria (17)	88.41	-0.2	77.17	85.47	2.48	88.54	77.51	85.68	98.18	83.72	101.88
Belgium (63)	123.23	+0.2	107.56	119.89	4.21	123.04	107.71	119.85	139.89	99.14	125.71
Canada (126)	123.53	+2.0	107.82	108.05	3.15	121.09	106.00	106.27	128.91	107.06	132.86
Denmark (39)	133.58	+0.2	116.59	129.99	2.30	133.25	116.65	129.99	133.69	111.42	121.49
Finland (26)	114.12	+0.0	99.61	105.02	1.68	114.11	99.90	105.16	139.53	106.78	-
France (130)	100.35	+0.3	87.60	99.80	3.25	100.05	87.59	99.66	100.35	72.77	107.93
West Germany (102)	80.52	+0.7	70.28	77.92	2.38	79.94	69.99	77.45	80.79	67.78	100.00
Hong Kong (46)	101.85	+2.5	88.90	102.20	4.90	99.39	87.01	99.70	111.86	84.90	155.12
Ireland (18)	135.25	+0.2	118.05	132.29	3.81	134.96	118.15	132.15	144.25	104.60	168.08
Italy (100)	76.35	+0.1	66.64	79.19	2.54	76.28	66.78	79.17	81.74	62.99	95.50
Japan (456)	158.28	+0.5	138.15	133.31	0.55	157.48	137.87	132.84	177.27	133.61	149.78
Malaysia (36)	133.32	+1.2	116.37	137.97	3.06	131.76	115.35	136.38	154.17	107.83	180.46
Mexico (13)	154.27	-0.4	134.66	385.92	1.41	154.88	135.59	387.44	180.07	90.07	398.50
Netherland (38)	103.74	+0.9	90.55	99.36	4.90	102.83	90.03	98.63	110.66	95.23	122.71
New Zealand (26)	70.81	+0.1	61.81	60.88	6.45	70.76	61.95	61.25	84.05	64.42	132.12
Norway (25)	114.76	+0.1	100.17	107.29	2.68	114.64	100.37	107.37	132.23	98.55	181.57
Singapore (26)	116.21	+1.1	101.44	109.12	2.53	114.98	100.66	108.03	135.89	97.99	172.54
South Africa (60)	106.85	-0.7	93.27	95.33	4.52	107.61	94.21	94.10	139.07	98.26	189.43
Spain (42)	141.12	+0.1	123.18	131.55	3.04	140.96	123.40	131.56	164.47	130.73	167.74
Sweden (35)	123.85	+0.5	108.10	116.88	2.45	123.27	107.91	116.70	125.50	96.92	136.43
Switzerland (56)	78.51	+0.9	68.53	76.88	2.19	77.78	68.09	76.33	86.75	74.13	110.33
United Kingdom (322)	130.68	+0.7	114.06	114.06	4.59	129.81	113.64	113.64	141.18	120.66	160.98
USA (582)	113.53	+1.9	99.09	113.53	3.52	111.37	97.50	111.37	113.53	99.19	127.30
Europe (1013)	107.20	+0.6	93.57	99.50	3.72	106.61	93.33	99.15	110.82	97.01	129.76
Pacific Basin (681)	155.21	+0.6	135.48	131.27	0.78	154.36	135.13	130.74	172.26	130.81	150.62
Euro-Pacific (1694)	136.04	+0.6	118.75	118.48	1.72	135.29	118.44	118.02	147.53	120.36	142.34
North America (708)	114.05	+1.9	99.55	113.21	3.50	111.87	97.94	111.07	114.05	99.78	127.60
Europe Ex. UK (691)	92.52	+0.5	80.76	90.57	2.99	92.08	80.62	90.27	92.99	80.27	110.35
Pacific Ex. Japan (225)	118.28	+1.3	103.25	105.63	4.44	116.71	102.18	104.41	128.27	87.51	161.15
World Ex. US (1893)	135.34	+0.6	118.13	118.02	1.79	134.54	117.78	117.51	146.49	120.26	142.67
World Ex. UK (2153)	126.44	+1.1	110.36	116.68	2.14	125.09	109.51	115.54	131.77	111.77	134.31
World Ex. So. Af. (2415)	126.92	+1.0	110.78	116.57	2.36	125.60	109.96	115.49	132.39	113.26	136.35
World Ex. Japan (2019)	111.76	+1.4	97.56	108.09	3.62	110.21	96.48	106.66	112.43	100.00	130.44
The World Index (2475)	126.80	+1.0	110.68	116.43	2.37	125.49	109.86	115.35	132.38	113.37	136.68

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local).

The Canadian, USA and related Regional Indices have been recalculated back to Oct.3 1988.
Corrected figures are available on request from FT Prices.Tel.01 405 0669.
Danish prices were not fully updated due to technical problems at the Copenhagen exchange

EUROPEAN OPTIONS EXCHANGE

Series		Nov. 88 Vol	Last	Feb. 89 Vol	Last	May 89 Vol	Last	Stock
GOLD C	$400	25	14	8	25.20	-	-	$403.40
GOLD C	$420	21	4	45	13.50	19	25	$403.40
GOLD C	$440	155	1.50	-	-	12	14.50	$403.40
GOLD C	$460	-	-	5	4	100	9.30	$403.40
GOLD P	$390	39	3.50	-	-	50	9	$403.40

[illegible]

TOTAL VOLUME IN CONTRACTS : 47,305

A=Ask B=Bid C=Call P=Put

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

BASE LENDING RATES

[illegible]

WORLD STOCK MARKETS

هكذا من الأصل

AUSTRIA
[illegible]

BELGIUM/LUXEMBOURG
[illegible]

DENMARK
[illegible]

FINLAND
[illegible]

FRANCE
[illegible]

JAPAN
[illegible]

FRANCE (continued)
[illegible]

GERMANY
[illegible]

GERMANY (continued)
[illegible]

ITALY
[illegible]

ITALY (continued)
[illegible]

NETHERLANDS
[illegible]

NORWAY
[illegible]

SPAIN
[illegible]

SWEDEN
[illegible]

SWITZERLAND
[illegible]

SOUTH AFRICA
[illegible]

AUSTRALIA
[illegible]

HONG KONG
[illegible]

SINGAPORE
[illegible]

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. [illegible]

CANADA

TORONTO
2pm prices October 6

[illegible]

INDICES

NEW YORK DOW JONES

	Oct 7	Oct 6	Oct 5	Oct 4	1988 High	1988 Low	Since compilation High	Since compilation Low
♦Industrials	2150.25	2107.75	2106.51	2102.06	2158.61 (5/7)	1879.14 (20/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	89.94	89.78	89.73	89.59	91.25 (3/3)	86.12 (4/1)	-	-
Transport	929.06	914.43	918.02	912.34	929.06 (7/10)	737.57 (21/1)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	187.47	183.68	183.20	181.04	190.02 (29/1)	167.26 (20/4)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2157.72 (2138.07) Low 2112.02 (2092.64)

STANDARD AND POOR'S	Oct 7	Oct 6	Oct 5	Oct 4	1988 High	1988 Low	Since compilation High	Since compilation Low
Composite ‡	278.07	272.39	271.86	270.62	278.07 (7/10)	242.63 (20/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrials	319.17	312.66	311.90	310.42	319.17 (7/10)	277.86 (20/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financials	26.36	25.84	25.88	25.86	26.36 (7/10)	21.51 (8/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	156.83	153.95	153.62	152.93	156.83 (7/10)	136.72 (20/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	308.92	303.14	299.97	299.62	309.33 (10/6)	262.76 (12/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	385.67	385.15	384.52	384.20	394.77 (18/7)	331.97 (12/1)	455.28 (26/8/87)	54.87 (31/10/72)

	Sep 30	Sep 23	Sep 16	year ago (approx.)
Dow Industrial Div. Yield	3.66	3.70	3.68	2.61

	Oct 5	Sep 28	Sep 21	year ago (approx.)
S & P Industrial div. yield	3.18	3.21	3.19	2.40
S & P P/E ratio	13.13	12.98	13.03	23.20

TRADING ACTIVITY † Volume Millions

	Oct 7	Oct 6	Oct 5
New York	216.990	153.570	175.130
Amex	11.346	11.637	10.945
OTC	154.922	124.210	131.805

NEW YORK	Oct 7	Oct 6	Oct 5
Issues Traded	1,941	1,907	1,953
Rises	1,135	771	852
Falls	389	605	564
Unchanged	417	531	517
New Highs	42	37	37
New Lows	26	16	25

CANADA

TORONTO	Oct 7	Oct 6	Oct 5	Oct 4	1988 High	1988 Low
Metals & Minerals	2913.7	2891.9	2886.2	2856.8	3226.5 (5/7)	2238.7 (8/2)
Composite	3398.4	3343.1	3310.3	3295.9	3465.4 (5/7)	2977.9 (8/2)
MONTREAL Portfolio	1694.87	1661.39	1647.75	1640.62	1723.71 (5/7)	1305.06 (27/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Varity	3,284,400	3	+ ¼	Manville	2,139,400	2⅝	- ½
Kroger	2,981,600	38	- ⅜	General Electric	2,096,400	44	+ 1⅛
AT&T	2,658,700	26½	+ ⅜	IBM	1,972,700	116	+ 2
Pillsbury	2,541,600	57½	- ⅜	Sears Roebuck	1,920,000	40½	+ 1
Wickes	2,214,600	11½	- 1	Baxter Intl	1,844,000	17⅝	+ ⅛

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 industrials plus 40 utilities, 40 Financials and 20 transports. (c) Closed. (u) Unavailable.

	Oct. 7	Oct. 6	Oct. 5	Oct. 4	1988 High	1988 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1525.8	1516.3	1512.1	1523.6	1657.8 (9/8)	1170.7 (10/2)
All Mining (1/1/80)	704.8	691.9	689.1	694.2	847.8 (9/8)	532.4 (10/2)
AUSTRIA						
Credit Aktien (30/12/84)	204.70	205.48	205.90	204.86	205.90 (27/9)	163.98 (11/2)
BELGIUM						
Brussels SE (1/1/84)	5326.20	5331.94	5272.90	5256.20	5331.90 (6/10)	3608.35 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	(u)	233.66	234.84	234.73	234.84 (5/10)	180.68 (4/1)
FINLAND						
Unitas General (1975)	676.5	680.6	682.6	684.4	772.1 (3/8)	530.6 (15/1)
FRANCE						
CAC General (31/12/82)	382.6	382.0	379.6	(u)	382.6 (7/10)	251.3 (29/1)
Ind. Tendance (31/12/87)	147.8	147.7	148.4	147.6	148.4 (5/10)	89.7 (29/1)
GERMANY						
FAZ Aktien (31/12/58)	522.57	519.54	517.22	514.33	522.57 (7/10)	396.40 (29/1)
Commerzbank (1/12/53)	1582.20	1573.40	1567.80	1559.40	1582.20 (7/10)	1207.9 (29/1)
DAX (30/12/87)	1269.36	1261.63	1252.31	1245.58	1269.36 (7/10)	931.18 (28/1)
HONG KONG						
Hang Seng Bank (31/7/64)	2478.87	2427.04	2417.42	2415.76	2772.53 (12/7)	2223.56 (8/2)
ITALY						
Banca Com. Ital. (1972)	558.35	558.47	556.59	554.57	558.47 (6/10)	423.91 (9/2)
JAPAN**						
Nikkei (16/5/49)	27258.27	27172.34	27405.49	27501.02	28423.38 (5/8)	21217.04 (4/1)
Tokyo SE (Topix) (4/1/68)	2101.95	2096.76	2116.76	2129.78	2253.10 (2/8)	1690.44 (4/1)
NETHERLANDS						
ANP-CBS General (1970)	277.4	276.10	274.5	273.0	284.8 (9/8)	205.7 (4/1)
ANP-CBS Industrial (1970)	245.8	244.0	239.9	237.1	245.8 (7/10)	157.9 (11/1)
NORWAY						
Oslo SE (4/1/83)	393.48	392.09	395.56	391.88	423.64 (21/7)	327.78 (28/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	1003.27	997.74	998.18	1005.28	1177.87 (8/8)	833.60 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1336.0♣	1317.0	1288.0	1294.0	1451.0 (7/7)	1154.0 (4/5)
JSE Industrial (28/9/78)	1759.0♣	1742.0	1734.0	1759.0	1759.0 (7/10)	1387.0 (12/2)
SPAIN						
Madrid SE (30/12/85)	282.79	282.32	282.00	282.75	301.63 (15/6)	225.50 (4/1)
SWEDEN						
Jacobson & P. (31/12/56)	3168.70	3161.90	3122.00	3122.04	3168.70 (7/10)	2148.5 (4/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	573.40	568.50	565.90	565.10	573.40 (7/10)	466.6 (13/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	443.9	445.2	446.0	465.2 (15/6)	401.0 (21/1)

**Saturday Oct. 8: Japan Nikkei (c) and TSE (c)
♣ Subject to official recalculation.

Base values of all Indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia. All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Friday 7 October 1988

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	42.3m	768	+5	Toshiba	13.4m	1,050	+50
Sumitomo Metal	35.0m	732	+7	Mitsubishi Heavy Ind	13.4m	875	+16
Kawasaki Steel	28.2m	650	+9	Kobe Steel	12.8m	815	+7
NKK	20.8m	767	-2	Nichimen	11.1m	850	+75
Osaka Gas	18.2m	749	+25	Daiwa	10.8m	781	-26

4pm prices October 6

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		— A—A—A —								
27⅞	14	AAR s	.80	1.4	19	819	28⅜	28¼	28⅜	+ ⅛
18½	6¾	ACM n				x222	8¾	d 8⅝	9⅛	
12⅛	8⅝	ACMIn	1.28a	11.		x297	11⅛	10⅞	11	
12⅛	10⅝	ACMSc	n1.26	12.		330	11	10¾	10⅞	+ ⅛
16⅛	8⅞	ACMSp	n1.61	11.		192	9⅛	9⅛	9⅛	
7¼	2⅝	AMCA				5	3⅞	6⅞	6⅞	
7¼	5¼	AM Intl				2057	5⅞	5½	5⅝	+ ⅛
28½	17	AM Int pf	6	6.6		147	22¼	22⅛	22¼	+ ½
37⅞	23¾	AMR			15	4498	40⅜	40	40	− ⅜
24⅞	10	ANR pf	2.13	8.8		1	24	24	24	
16	6⅛	ARX			11	40	7⅛	7	7	
70½	35¼	ASA	3	7.9		160	38⅜	38	38⅛	+ ⅛
22⅞	9⅛	AVX	.12e	.8	12	325	16⅞	16⅝	16¾	+ ⅛
61⅝	40	AbtLab	1.20	2.6	15	14615	46¾	40½	40½	− 1⅛
27⅛	15⅞	Abitibi g	1			212	17⅛	16⅞	16⅞	− ¼
16½	8½	AcmeC	.40	4.5		110	8⅞	8¾	8⅞	+ ⅛
9½	6⅝	AcmeE	.32b	4.6	10	11	7	7	7	
28	14⅛	AdaEx	3.05e	20.		10	16⅝	15½	16⅝	
19⅞	8⅞	AdamMl	.24	1.5	10	524	16⅝	16½	16½	− ¼
24⅞	7½	AMD				3713	8⅞	8⅝	8⅝	
60⅜	29¼	AMD pf	3	9.6		14	32	31½	31⅝	+ ½
9½	4⅝	Adobe				64	7½	7½	7½	
19¼	16¼	Adob pf	1.84	11.		2	17¼	17¼	17¼	+ ¼
12	6⅞	Advest	.12	1.5	15	34	8¼	8⅛	8⅛	
31¼	32½	AetnLf	2.76	5.4	6	591	51⅛	50⅞	50⅞	− ¼
35⅛	10½	AflPb s	.20	.7		382	29⅞	29¾	29¾	− ⅜
20⅞	13	Ahmans	.88	5.1	11	3828	17⅝	17⅛	17⅛	− ⅛
4⅝	1⅝	Aileen				88	4⅛	4	4⅛	
53⅞	28	AirPrd	1.20	2.8	11	2174	42⅞	41⅛	42⅛	+ ⅛
27½	11⅛	AirbFrt	.60	3.2	23	124	18⅞	18⅝	18¾	− ⅛
18¾	6¾	Airgas			18	31	14⅝	14⅞	14⅞	− ⅝
28	13½	Airlease	2.40	13.	18	12	18¾	18⅞	18⅞	
9¾	7⅝	AlaP	dpf.87	9.2		18	9½	9⅜	9½	+ ⅛
97	91½	AlaP pf	9	9.6		z30	93¼	93¼	93¼	
108	103½	AlaP pf	11	10.		z10	105½	105½	105½	− 1
[illegible]										

Continued on page 41

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NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
76¾	50	Xerox	3	5.1	13	4841	58⅞	57⅞	58½	+ ⅛
36	19⅞	XTRA	.72	2.1	14	187	34	33½	34	+ ¼
29⅞	19½	XTRA pf1.94		7.1		1	27¾	27⅜	27⅜	− ⅛
59¾	17½	Yorkln			18	117	52⅛	52	52¼	− ⅛
5⅞	2¼	Zapata				85	2⅞	2⅝	2⅞	+ ⅛
67	13½	Zayre	.40	1.6	178	16306	27	25	25¾	+ ⅝
16	8¾	Zemex	.40	2.9	13	66	13⅞	12⅞	13⅞	+ ⅛
30	18	ZenithE				1941	21¾	20⅝	20¾	− ⅞
10⅞	9½	Zenla n	.36e	3.8		455	10⅛	9⅞	9⅞	− ¼
7⅜	1	vjZenLb				414	2	1⅞	1⅞	
21⅞	12¼	ZenNt	.80b	4.6	8	619	18⅛	17⅞	17⅞	− ⅛
19⅞	11¼	Zero	.40	2.6	14	285	16⅝	15⅞	16⅛	+ ⅛
28	16	Zurnln	.88	2.5	17	325	27¼	26⅞	27¼	+ ¼
11⅛	7⅞	Zweig	1.04	10.		z613	10½	10¼	10⅜	+ ¼
10¾	10	ZweigT s				484	10⅛	10	10⅛	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

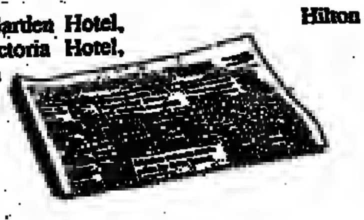
AMEX COMPOSITE PRICES

4pm prices October 6

OVER-THE-COUNTER

Nasdaq national market, 3pm prices October 6

Stock	Div.		Sales 100s	High	Low	Last	Chng
A&W Bd		42	20	18¾	18½	18¾	
ADC s		9	207	12	12⅝	12¼	− ¼
ABK		10	1335	12⅞	12½	12¼	− ¼
AST		7	1466	9¼	9	9¼	+ ⅛
Acadia		31	119	1⅜	1 9-16	1 9-16	
AcmeSt	.05e	12	101	24⅝	24⅜	24⅜	
ActAR s		59	16	15¼	14⅝	14⅝	− ¼
Actmed		39	667	8⅞	8⅝	8⅞	+ ¼
Acuson		25	223	24¼	23⅝	24	
Acxiom		17	21	15⅜	15¼	15¼	
AdacLb		21	336	3⅝	3½	3 9-16	− 1-16
Adapt		14	50	5¼	5⅛	5¼	
Adinglo		9	20	21½	21	21½	+ ½
AdiaSv	.14	21	332	28½	28¼	28½	+ ½
AdobeS	.16e	20	1007	46	44¾	45½	+ ¾
AdvCir			1067	4½	4¼	4⅜	
AdMkSv		10	28	16	14½	12	+ ½
AdvPoly			775	8⅞	8¼	8¼	− ⅝
AdvTel			68	17½	17¼	17½	
AdvoSy		48	35	4¾	4½	4¾	+ ¼
AffBcCp	.15e	9	37	10¼	9⅞	10¼	+ ¼
AffBsh		66	38	10¾	10½	10¾	+ ⅛
AgncyR	1	17	206	18	17¼	18	
Agnico g	.20		230	11½	11¼	11½	+ ⅛
AirWisc		7	300	14¾	14½	14¾	+ ¼
Alatan	1.10	66	5	20	19½	19½	− ½
AlcoHlt	.08e	16	2025	24¾	24½	24½	− ¼
Aldus		21	114	19¼	17¾	17¾	
AlexBr	.16	17	40	16¼	12⅞	10¼	− ¼
AlexBl s	.60	11	1640	66¼	32¼	33	+ ¼
Alleco			4	10	9	9	
Allwast		32	795	14⅝	13¾	14¼	+ ½
Altera		25	209	5	4⅞	4⅞	− ⅛
Altos		6	24	8½	8½	8½	− ¼
AFTxEx	1.70		120	17⅞	16¾	17½	
AWAirl			76	6⅛	5⅞	6	
ABnkr	.60		219	11¾	11½	11¾	+ ¼
AmCity			469	18¾	18¼	18½	
AContl			61	6½	6¼	6¼	− ½
AGreet	.66	17	1063	19⅞	19⅝	19⅞	+ ⅛
AHlthd		17	5	5⅛	5⅛	5⅛	
AmIntLf	.48	11	1047	u17¼	16¾	17	+ ½
AIM 84	2.40e		62	17½	16¾	14¼	− ¼
AMS		10	186	14¼	14¼	14¼	+ ¼
ANtIns	1.40	11	230	35	34¾	34¾	− ¼
ASLFl pf2.19			34	17¾	17⅝	17⅝	
ASvWA			104	18¼	18½	18	− ⅛
ASoft	.14	12	150	14⅞	14⅝	14⅞	
ATvCm		52	2817	u30⅞	29⅝	30⅝	+ 1
AmFdBk			1690	17⅞	17¼	17½	− ¼
Amritr	1.10		453	21⅞	21⅝	21⅞	
Amgen		352	1478	33	31¾	31¾	− 1¼
AmskBk	.08		55	14⅞	14¼	14⅞	
Amwst s	.20	10	17	7¼	7¼	7¼	− ⅛
Anlogic		22	20	9¼	6¾	6¾	− ⅛
AndvSv			513	4¾	4½	4⅝	+ ⅛
Datacp		21	20	44¾	44¼	44¾	+ ½
Dauphn	1.28	19	15	33	32⅞	33	+ ¼
DebShp	.20	10	180	8⅝	7⅞	8	
Dekalb			257	17⅞	17½	17½	
Delchm	.28	19	1682	27⅞	27	27¼	+ ¼
DellCpt		11	369	9½	9¼	9¼	− ⅛
DiaMed	.20	8	119	12¼	12	10¼	
DepGty	1.44	8	20	33¾	33¼	33¾	+ ¼
Diagpst		28	714a	8⅛	8 1-16	8⅛	+ ¼
Dibrel	1.19	8	36	28¾	28¼	28½	− ¼
Diceon		8	5	14⅜	14⅜	14⅜	− ⅛
DigMic		27	103	17¾	17½	17½	
Digtch			302	1 15-16	1⅞	1⅞	− 1-16
DimeCT	.60	10	47	13	12⅞	16	− ⅛
Dionex		19	1090	23	22½	23	+ ¼
DMmst		12	411	12⅞	13½	16⅞	
DixieYr	.60	6	1014	17⅜	17	17	− ¼
DirGnl	.20	30	674	u10½	10	10¼	+ ¼
DomBk	.76	9	714	17	16⅞	14⅞	+ ¼
DresB		19	271	19½	19¼	19½	+ ¼
DreyGr		30	193	19¼	12	19¼	− ⅛
DrpEm			182	10⅞	10½	10⅞	+ ⅜
DunkDn	.60	10	168	25¼	24⅝	24⅝	− ¼
DuqSys		19	100	17¼	17	17¼	
Durim		17	418	12⅝	12¼	12¼	− ⅛
Durhm	.92	17	65	35½	34¾	35½	− ¼
Duriron	.60	18	610	20⅞	22½	22¾	+ ⅛
DurFil	.10	27	606	16½	15¾	16	+ ⅛
Dyatrn		11	32	14¼	14	14¼	− ⅛
Dycom		17	333	17¼	16⅛	16⅜	− ¼
Dynscn		7	184	8½	8⅜	8⅜	
DytchC		10	43	21	20½	20¾	+ ¼
— E–E —							
ESSEF		12	5	9¼	8⅛	9¼	+ ⅛
Easco		12	317	9¾	9½	9¾	+ ¼
ElPas	1.52	25	474	16	15⅞	15⅞	
Elan		42	114	8⅞	8¼	5⅞	+ ⅛
Elco s	.40	13	33	10¼	10	10	− ⅛
ElsMed		78	170	13⅞	12¾	12¾	− ⅛
EloRat		18	22	14⅜	14⅜	14½	+ ⅛
ElcSci		40	327	16¼	9½	15	+ ¼
ElnxAB			1	41	41	41	+ ⅝
Elcmg		9	35	9¼	9⅛	9¼	
EllotSv	.22e		44	10½	10	10½	
EmCae	.90		61	33	32⅝	33	+ ¼
Emulex		14	416	10½	10¼	10¾	− ¼
EngCnv			139	7	6½	6⅞	− ⅛
EClay	.96e		1	25⅞	25¾	25¾	+ ¼
Enseco		33	664	10¾	10¼	10¼	− ½
EntPub	.05j	19	16	23⅞	22¾	23⅛	+ ⅜
Enviri		11	470	26	25⅝	25⅞	+ ⅜
EnvCtl			29	14	13⅝	12⅞	+ ¼
EqtBcp	.92	16	159	24½	23½	24½	+ 1¼
EricTl	1.27e		67	40⅝	40½	40⅝	+ ½
EvnSut		11	147	10	14½	14½	− ½
Everex		13	312	6⅝	5⅝	5½	
Wolohn	.24	9	148	15⅛	14⅞	15⅛	+ ¼
WolvEx			1054	8⅞	7⅞	7⅞	− ¼
Worthg	.44	18	161	22	21⅝	21⅝	
Wyman	.80	15	149	15½	15¼	15½	+ ¼
— X–Y–Z —							
XL Dta		14	77	24	23½	23½	− ¼
XOMA			1067	12½	12½	12¼	+ ½
X-Rite s		18	56	10½	10	10	− ½
Xicor		18	5542	8⅞	7⅞	8⅛	+ ⅝
Xyvsn		3	18	6⅛	6	6	
YelowF	.70	19	880	30¾	30¼	30⅝	− ¼
ZionUt	1.44		22	24¼	24¼	24¼	



The Business Column

Psychology smothers executive salary envy

Here's a little "salary envy" test.

Suppose you are a successful businessman at the top of a largish company. You have to hire the services of an outside supplier and you discover during the course of your negotiations that he or she earns considerably more than you do.

In some cases, you may readily accept that the person belongs to a profession whose standing commands high pay – a top international consultant or lawyer, for example. But in other cases you may feel that person has nothing that justifies more pay than you. So you have to smother your feelings of envy – or rationalise the anomaly in some other way.

Where do you draw this line? At your public relations adviser, your banker, your equal in another company, a senior civil servant? Your answer should provide a good clue to your self-esteem.

The salary envy test can be particularly strenuous in the area of investment banking. It is a profession notorious for massive levels of remuneration which often bear little relation to professional qualification (if any) or even skill. And it requires a very conscious effort on the part of others to handle the discrepancy, let alone prevent it from intruding on – and damaging – a working relationship. In fact, it's such an awkward and deeply personal matter that few people care to air their feelings on it.

Trading the quality of life for money

A brief exception comes in a new book about Wall Street which has just been published in the US (Doing Deals by Robert Eccles and Dwight Crane, Harvard Business School Press). The authors, who are two professors at the Harvard Business School, examined the psychology of salary envy quite closely and came up with a theory for how people handle it. They call it "The Implicit Contract".

The contract is based on the – largely mythical – argument that investment bankers deserve to be paid vastly more than anyone else because they lead such gruelling lives. They work 16-hour days, seven days a week. They allow their work to dominate their personal lives. They are exposed to divorce, heart attack and cancelled holidays. And even if they survive all that, they still face premature burn out.

In short, they are trading the quality of life for money. The authors comment: "The stories may well be exaggerated in the telling: the greater the extent to which customers believe investment bankers work under combat conditions, the less concerned they will be about differences in income. Customers can rationalise the discrepancies by telling themselves, 'No amount of money is worth this kind of sacrifice.'"

Flamboyance conceals a lack of confidence

Ultimately, the contract says that the investment banker has much less job security, which probably provides the lesser paid corporate executive with his greatest consolation. The specially envious can even derive an extra ounce of satisfaction by ordering their investment bankers about and making them act obsequiously as they tout for business.

But the point about the implicit contract is not only that it soothes envy. It also flatters the investment bankers whose outwardly flamboyant egos frequently conceal a deep lack of confidence. So it suits everybody. As the book points out, they are in a highly competitive business where they hear the word "no" a lot more than "yes".

It's a pretty flimsy contract, of course. By its logic, coal miners and nurses should be paid vast salaries too. But that only emphasises its nicety and the strength of feeling that it attempts to conceal. The most damning thing I have heard people say about investment bankers in an attempt to put them in their place is that they are merely another service provider, like the auditor and the window cleaner.

David Lascelles

THE MONDAY INTERVIEW

Singular man of the cloth

Alice Rawsthorn talks to Sir Christopher Hogg, chairman of Courtaulds

Sir Christopher Hogg cuts an idiosyncratic figure in the ranks of British industry. He eschews the glossy cars and barrow boy aphorisms of the archetypal Thatcherite industrialist, in favour of cycling to work and citing Hamlet in essays for the Royal Society.

With his literary tastes – and his bicycle – he tends to be portrayed as one of the scions of the English establishment that fill the novels of Anthony Powell.

Yet his achievement, in his eight years as chairman, of restoring Courtaulds to its role as one of Europe's leading textile and chemical groups, has earned him the admiration of his peers. Whenever British industrialists are asked which of their number they most admire, his name is almost always close to the top of the list.

Sir Christopher, 52, seems indifferent to it all. "I never look back and say 'Aren't we great? Isn't it good that we are changing?'" he says. "I tend to look forward and see that we still have a very long way to go."

When he became chairman in 1980, Courtaulds was in crisis. The group had expanded at a ferocious pace under Lord (Frank) Kearton – "a man of extraordinary ability and dynamism," says Hogg – in the 1960s by moving from man-made fibres into textiles. The expansion had been designed to arrest the decline of the British textile industry, which then bought most of the fibres made by Courtaulds.

But the British textile industry is a vestige of Empire. It dates back to the 1700s and 1800s when the colonies provided a cheap source of raw materials and a captive market for the cloths and clothing made in Britain. Throughout the post-war years, when the Empire dispersed and the newly independent colonies became a new source of competition, Britain has struggled to compete.

Kearton bought cotton mills in Lancashire and knitting factories in the Midlands. He flung up fibre plants in Northern Ireland and built a shiny, new textile complex on Merseyside. His grand design saved Courtaulds in the 1960s but was wholly inappropriate for the 1970s.

The problems began with the oil price crisis of the early 1970s. By the end of the decade when the recession began to bite, Courtaulds, with its vertical structure, was crushingly uncompetitive.

In his first few years as chairman, Sir Christopher sanctioned a factory closure or a round of redundancies almost every week. Courtaulds now employs about 50,000 people, half as many as in 1978. He earned the epithet of "hatchet man" that he has never really lost.

"I have a heart like everyone else, although I am often said not to have one at all," he says. "At the time fellow directors would talk of going into a pub and someone saying: 'So you work for Courtaulds, that is the company that keeps on making people redundant.' That was hard. It really hurt.

"The important thing was to just blasted well keep going. I never, never thought that we would go under. Imperceptibly from week to week, month to month, things got better."

By the mid-1980s Courtaulds was bandied about as one of the success stories of British industry. The balance sheet may have borne the burden of rationalisation. Its principal products, fibres and textiles, were still prey to sudden surges of imports and to cyclical downturns in demand. But the group had retreated from the commodity production that had made it so very vulnerable in the 1970s and investment in new technology had produced impressive improvements in productivity.

Hogg had also changed its culture. Kearton had ruled Courtaulds as a personal fief. Sir Christopher had mistrusted centralised management ever since his time at the Industrial Reorganisation Corporation, the 1960s Labour exercise in corporatism.

"One could see very clearly – and this is something that I have seen again and again throughout my career – that decisions of all kinds are best taken by the managers most directly affected by them," he says.

"I have never been a great one for standing on soap boxes in factory car parks," he says. "Most of my time is spent with my fellow executive directors making sure that the way we work together and the way they are developing their talents is to the best advantage. If you get that right then it will automatically go through the company."

Since the recovery, one of his chief challenges has been to change the emphasis of Courtaulds from retrenchment to growth. This task has been all the more difficult because many of the managers have lived, not only through the early 1980s, but through the Kearton era too.

"There is no doubt that growth demands different qualities than restructuring," he says. "In a way it is more difficult because of the need to look constantly for new opportunities and to choose between them. It can be prodigiously exhausting, whereas restructuring is very often a matter of seeing what needs to be done and having the guts to do it.

"But I do not see why a manager needs to be typecast as one or the other. It is difficult to encourage people who have seen long service in bad stations to feel confident again. But you can change a lot of managers from being largely preoccupied with one to being not so darned bad at the other."

PERSONAL FILE

1936 Born London
1956 Parachuted into Port Said during Suez Crisis
1962 Harvard MBA with high distinction after 1st at Oxford
1963 Worked in corporate finance at Philip Hill, forerunner to Hill Samuel
1966 Joined Industrial Reorganisation Corporation
1968 Recruited to Courtaulds by Frank Kearton
1980 Chairman of Courtaulds
1984 Joined Reuters as non-executive director, later non-executive chairman

By the autumn of 1986 he was sufficiently confident to form a group executive committee of main board directors to analyse Courtaulds' future prospects. "It was the first time that we could have a layer of management with its eyes fixed very much on the medium or long term, knowing that people down the line knew what had to be done in the short term and were doing it well."

Sir Christopher relishes the prospect of running a growth-oriented group. He recalls being "very upset" in the 1970s to be taken away from International Paint, the company he ran and restructured on first joining Courtaulds, and dispatched to textiles.

"The company was starting to go like the clappers and I wanted to enjoy its success," he says. "After all, I have always seen myself as a growth man."

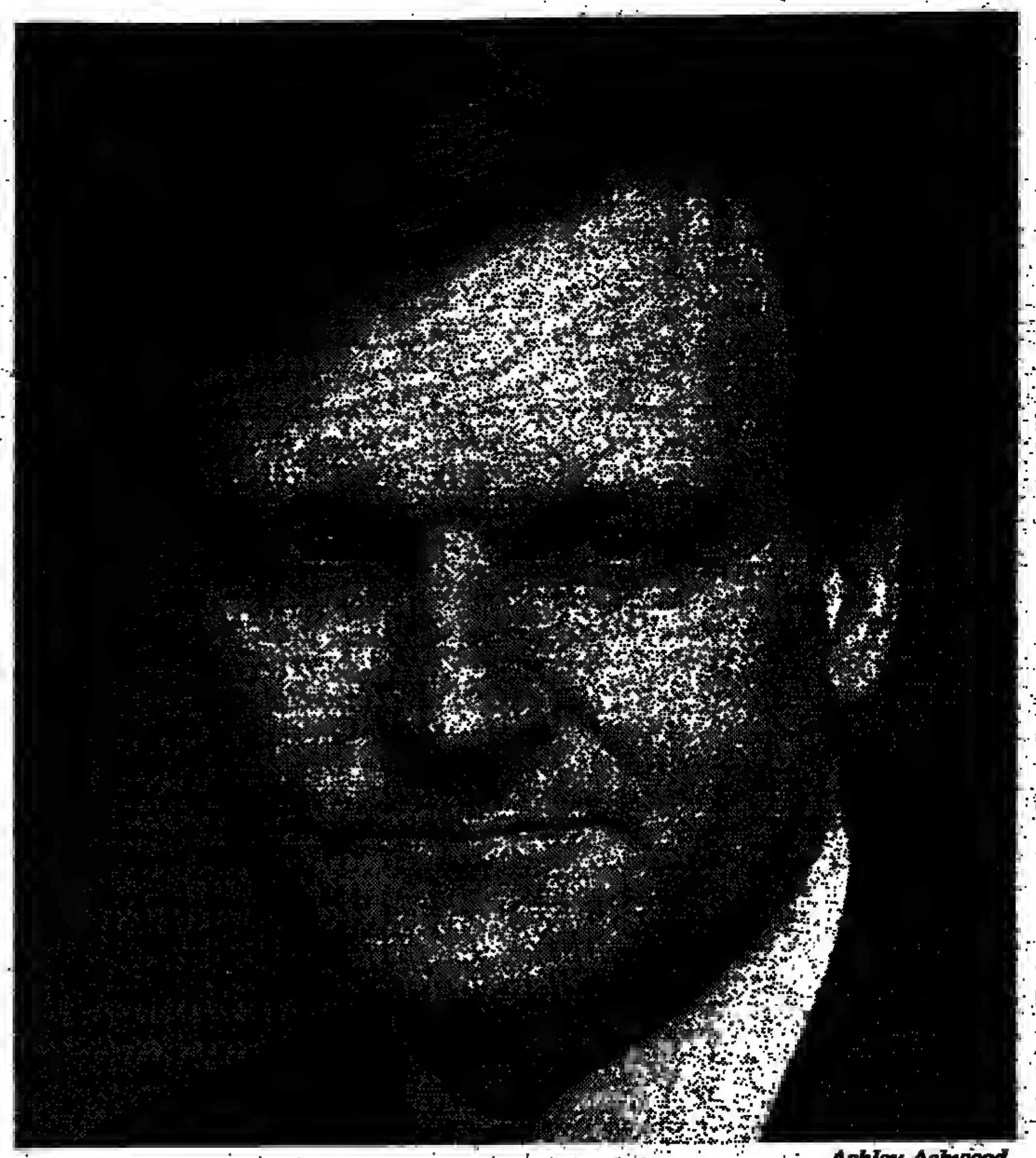
But Courtaulds has plunged into problems again. For the last year or so its fibre and textile businesses have encountered much more competitive conditions. There has been decline in demand for fibres throughout Europe. Textiles has been hit by a sudden surge of imports into the UK.

The scenario is not nearly as bleak as in the early 1980s. Courtaulds has already retreated from the most exposed areas of both sectors. The proportion of capital tied up in fibres and textiles has fallen from 80 to 50 per cent in the last eight years. But there have been more cuts and more closures. The textiles workforce has been reduced by 1,350 in the last six months alone.

"One thing that the textile industry teaches you is that nothing ever stays the same," he says. "Maybe exchange rates, or whatever, knock things off in the short term. But our handling of the business has improved enormously. I draw my confidence from that."

The City is not so sanguine. Courtaulds now has the dubious distinction of being one of the few companies on the London market with a share price lower than in the wake of last autumn's crash. Mr Kerry Packer, the Australian entrepreneur, is now sitting on a hefty loss on the holding he has amassed since the spring.

"The City imposes tremendous pressure on management, but you have to like it or lump it," says Sir Christopher. "Kearton used to fly into tremendous rages when he let the City get under his skin. There is absolutely no point in getting uptight about it."



Ashley Ashwood

'I have a heart, although I am often said not to have one at all'

He is less equable about public indifference to industry. "Attitudes have changed in the 1980s but not very much," he says. "It would be amazing if after nine years of a Government led by a very strong person, who is very conscious of industry's importance, if they had not."

"Mrs Thatcher thinks like an industrialist and acts like one. I remember asking her in 1981: 'If I am faced with a choice of making new investment and making people redundant, or carrying on as I am. What should I do?' And she said 'You must do whatever makes you internationally competitive.' It was exactly the right answer. It was an industrialist's answer. And I have never forgotten it.

"Are we still a nation that prefers the quiet life, the intellectual life of professional backwaters to the buccaneering, competitive spirit? I do not know. But I am sure that there are more fellow travellers today."

His interest in the wider issues facing industry has fuelled speculation that he may leave Courtaulds for a new company and a new challenge. Over the years his name has been linked with numerous posts in the public and private sectors. But so far his main venture outside Courtaulds has been to indulge his passion for electronics by acting as non-executive chairman of Reuters, the international news and information group.

"I have spent 20 years of my life with Courtaulds," he says. "And I would find it very difficult to move on without being very confident in my own mind that it would be the better for my departure.

"In my time here I have worked with people who have done their damnedest in very difficult conditions. One cannot help but welcome any success that has come for their sake. Now I can see them standing taller, thinking bigger and daring more. I get my kicks from exactly that."

Another sea change in judicial practice

The news that publishers and booksellers are hastily substituting a corrected edition of Mr Norman Tebbit's autobiography – in fact, only one page of the book which contains an alleged libel on Ms Sara Keays – may excite some public interest but little or no surprise.

Last Friday a High Court judge granted Ms Keays an injunction restraining publication of the impugned passage which she claimed libels her. That, too, should cause no surprise.

As with all legal causes of action, the High Court possesses the power in a final order to grant a party to litigation an injunction as the appropriate remedy for a legal wrong. That power includes the possibility of the wronged party's obtaining an interlocutory injunction – that is, an injunction pending a trial of the issues between the parties.

The court is often anxious to preserve the existing rights of parties. If an interlocutory injunction is not granted, the rights of a party may be irreparably lost by the passage of time pending trial. Certain special rules, however, govern the granting of interlocutory injunctions in defamation proceedings.

Until recent years, there existed a long-established series of court decisions which rendered interlocutory injunctions unavailable. Only in the most exceptional cases were interlocutory injunctions ever obtainable in libel actions. That long-established principle seems now, however, to have been abandoned, in part at least, by the judges in favour of a more relaxed view about the rights of defamed persons against those who exercise the freedom of speech.

Ms Keays' ability to cause havoc at the printers and publishers of Mr Tebbit's book is only the latest, and worryingly, not the last example of a sea change in judicial practice.

It was always regarded by the courts as a matter of high principle that in libel actions an interlocutory injunction should not be granted if there were any doubt whether the words were defamatory, or if a publisher said that he would plead either justification (that the words spoken or written were true in substance) or if he intended to plead fair comment, qualified privilege, or any other defence, and if it was not manifest that such a defence was bound to fail.

In the case of such a prominent and generally respected figure as Mr Tebbit, it is hard to imagine that he would not be putting up some arguable defence for what he has written. Only if Mr Tebbit has already conceded that he has no defence to Ms Keays' action for libel would the court be justified in granting the interlocutory injunction.

The reason for the hitherto established principle is tolerably clear. The reasoning behind it is twofold.

JUSTINIAN

First, the court is conscious of the pressing social need not to inhibit or interfere with freedom of expression.

This principle is wholly in accord with Article 10 of the European Convention on Human Rights, which guarantees the freedom of expression, qualified only to the extent that it is necessary (and not merely justified) in a democratic society to protect national security, public heath and morals, and to prevent crime.

Second, a court is always anxious not to usurp in advance the exclusive function of the court which will inevitably try the case. This self-denying ordinance by the pre-trial court not to anticipate the result at trial is accentuated by the fact that it will not have heard the evidence – at best it will have read only the affidavits of the parties, untested by oral cross-examination. And where, as in a libel action, the trial is not by judge alone but by a jury, there is a natural reluctance to conclude what 12 good men and true will ultimately determine in the trial.

The result is that it is only very exceptionally that courts will predetermine the true meaning of words, often a matter of determining the nuances and innuendoes of the language used that may call for detailed examination at trial.

Fourteen years ago, the Faulks Committee, in an extensive and exhaustive review of the law of defamation, considered the state of the law on injunctions in libel actions. The committee concluded: "During the evidence before us, we have received no criticism of this principle, and *we do not recommend* any change."

No parliamentary action has been taken on any of the positive recommendations of the Faulks Committee. In particular, Parliament, acknowledging the reasserted principle of not granting interlocutory injunctions in libel actions, has not sought to alter the fundamental rule so as to impinge upon free speech. Yet the judges seem now to have taken upon themselves the task of qualifying the principle rooted in the common law.

A reasonable explanation for this significant shift in judicial attitude is a feeling that freedom of expression is too often being abused in those areas touching on the citizen's right to be left alone. There is an evident distaste among lawyers for the heightened disclosure by the media and the publishing world of the private lives of public figures.

The instinct to curb by judicial decisions the full-blown freedom of speech is a reflection that courts should now seek to instil a greater sense of responsibility in those who put pen to paper without much thought of its hurt to individuals. It is a trend that needs urgently to be evaluated in social policy terms, if there is to be an abandonment of the principle that served a democratic society well in the past.